Ad Hoc Committee members present were:

Mr. McLaren (Mac) C. Carter, Board of Agriculture & Conservation
Mr. Wesley E. Eckert, Darigold (retired)
Mr. Ernie Hall, Alaska Furniture Manufactures
Mr. Paul Huppert, Palmer Produce
Mr. Don Lintelman, Northern Lights Dairy
Mr. Rex Shattuck, Aide, Rep. Mark Neuman
Mr. Mark Neuman, Alaska State Representative
Mr. Joseph Van Treeck, Matanuska Maid
Ms. Gail Phillips, Business
Mr. David Wight, Business
Mr. Ken Sherwood, Alaska Mill & Feed
Ms. Ginger Blaisdell, Aide, Senator Lyda Green

Support Staff in attendance were:

Mr. Edmund Fogels, Acting Deputy Commissioner, DNR
Ms. Rhonda P. Boyles, Chair, Board of Agriculture & Conservation (BAC)
Ms. Candy Easley, Loan Officer, Division of Agriculture
Ms. Rachael Petro, Special Asst., DNR Commissioner's Office,
Ms. Tina Bosela, Secretary, DNR Commissioner's Office
Mr. Chad Padgett, Director, USDA Farm Service Agency
Ms. Carol Lewis, Dean, UAF School of Natural Resources & Ag. Sciences

**Rhonda Boyles**: What you have in front of you is my two hour attempt to pull this together. There is certainly no pride of authorship. We are just going to have a tool to start with. Carol graciously agreed to spend the day with us and she has a report that I think that was on the Web but we have copies for reference which was the committee that we did at the University about a year ago right Carol?

**Carol Lewis**: Ya about a year ago.

**Rhonda Boyles**: The interesting part of that report is some of the comments by the public and I think it might be good of us to go back and take another look at them.

**Carol Lewis**: There were two listening sessions that went along with that over about 100 people responded. I think that is a real value.

**Rhonda Boyles**: How is Seattle a little warmer than Anchorage right Wes.

**Wes Eckert**: A little bit.

**Rhonda Boyles**: Good for you. Coming from the interior I always forget this wonderful slush they have in Anchorage we don't deal with that in Fairbanks. Are we missing anybody? Yes, Dave Wight that is it right and he will be along eventually. I suspect and I invited all of you. If you didn't see Chad's response thoughts as to what I wrote back and forth with Chad a little bit. I am hoping he comes today because I think the federal piece of this is really important. Okay, before we get started I want to make to share with you a 40 minute meeting that I had with the Senator's staff. But my days are running together so I can't tell you it was last week I think when we finished up here some point anyway.

In summary I kind of we talked a little bit about Gary, Joe you are going to love me for this but I suggested and I think you may see some more about this I don't know they seem to be very responsive to it. Maybe it is because it is the only idea they has at that time but, I think that taking Windsong Farms into Mat Maid taking that cheese processing into Mat Maid at this point at this point is probably a good idea and they could use according to the staff some of the money available from Chad $650,000 that could be used to buy some equipment, cheese making that you might need in the Creamery and you would have to put that little package together. Um, if you took him in at his age I feel bad talking about him and he is not here but, I wanted to very candid about this and that I thought maybe absorbing him into the Creamery putting his face beyond the cheese that is his cheese that gives him a transition period because regardless of what happens personally um all of us in this room are smart enough to know that going through a liquidation if he owes a half million is liquidated for $300,000 he is going to get a 1099 for $200,000 and IRS is going to eat his lunch that very well could happen. So a compassionate move which is what the Senator's concerned about was to maybe absorb him into the Creamery give him a couple of years to transition. Give him some income that kind of thing. That was simply what are we going to do how can we work this out to make sure that the individual because Ted's compassionate. So we went on then to talk about the producers and the federal loans and Chad's situation and every body in the State including the Senator needs to step up to that plate. So I think in the best interest of the industry assuming we want to protect it somewhat and let it nature take its course, economics take it's course we need to be able to say to whomever gets this report that the State has an obligation. I think from what I heard if the Senator sees an obligation on the part of the State that he will go back and try to support the industry federally also. In the meantime it was made very clear to me they do not want to do away with the dairy industry. In other words what I heard was position the industry as much as possible for success not demise. So I came away with that message very clear and which is why I kind of wrote some of the statements that I did.

Now we had a lot of information, we had a lot of opportunity to talk and now are just going to be round table ladies and gentleman because we need to come up with some substance to the comments. Candy and Carol I think you need to shove yourself right up here to these chairs and be part of this working session, because Lora is not here and we have to reference some documents I will look to you for help. I felt that the work that I did was not substance enough. I think we need to put some numbers to it, but that is my spill. Tell me what you are thinking?

**Wes Eckert**: I agree with that.

**Rhonda Boyles**: That is wasn't substantive enough?

**Wes Eckert**: What I was looking for in that, let me just, I promised I wasn't going to involve myself to much because you know the State of Alaska people are going to have to decide this but if I was going to receive this report you know I would not want to pile through this (indiscernible) has everything we have got so far. Why would you submit I think it is okay for submission but, you would not require people to plow through all that information? So I think it is our responsibility to boil it down into facts the goods and the bads of each of the four legs to this chair and just simply on a one page deal just say these are what the things that we found out and I would say the presentations and papers we have gotten have been outstanding so we have gotten a lot of information there is a lot more questions that I have. But anyway I think on one side of the ledger we have to come up with these are the facts things we found out about all four of these things and again the goods and the bads and that would clearly indicate that this is where this thing is headed if nothing is done. We have talked about this before and I am not saying something new. On the other side of the ledger just say we want to perpetuate this if you just (indiscernible) that this is the price tag over here. So it is very clear back and white and I understand this is difficult to kind of pull together but I think it is so abstract. It just kind of still is floating around out there. For me if I wanted this report and I picked it up I would want it short and to the point you know no more than one page of pluses and minuses for each of the four and this is the number on the left. Just about that simple and I think we took all of our notes and wrote those things down it would come crystal clear.

**Rhonda Boyles**: I looking for you all to go back into your memory bank and because I couldn't absorb all the information either. Now what I started with Rachael has on her lap top. So I think we just start and move forward. Before we go there did you get the suggested report structure? Do you want to knock that around a little bit and mark it up?

**Ken Sherwood**: I don't think I got that.

**Wes Eckert**: It was page one of what they sent us.

**Rachael Petro**: It was the first attachment.

**Rhonda Boyles**: It was the scope of work and the scope of work was just so that they all would know that we have a plan regardless of what the outcome was we have a good plan. The participants because you all are very credible and I think the report recipients need to see that. I don't need the agenda(s) other than that since we have the structure, a copy of the letter from the Governor and the Commissioner I think that is appropriate and probably the Commissioner what.

**Rachael Petro**: Could I make a suggestion. I would just suggest that all those things be enclosures and like Wes was saying you want that a couple of pages for the recommendation. If they want to dig through the scope and them, but those could all just be enclosures.

**Rhonda Boyles**: Right I don't have a problem with that as a reference point and um I think we need to attach some substance to this that is why I choice the Godfrey report because you know Wes I have to tell you. You are from Seattle and you are probably going to be more creditable than anybody in this room.

**Wes Eckert**: Well.

**Rhonda Boyles**: That is just the way we think in Alaska. The Godfrey report I think was substantive as well as professional.

**Wes Eckert**: Ya it was very good.

**Rhonda Boyles**: So and then one page each as Wes said pros and cons facts on each of the categories.

**Wes Eckert**: I think there is a lot of information that we got that people don't know about. You know I bet if you ask people on the street you know who are people in Alaska who care they don't know a lot of the facts that came out at the last three meetings we have had you know. Obviously in that short period we don't know everything there is to know either but, that is what needs to be laid out.

**Rhonda Boyles**: As we address one category or the other we for example when we talk about hay and barley any of the substantive information we were given could be attached in an addendum but, again I don't we don't want the report this thick we are going to have to kind of pick and choose what information best says justifies what we are saying.

**Joe Van Treeck**: I would like to offer another point we are buried down in this issue but this issue is only under the umbrella of the broader concept of agriculture in Alaska. I think there should be some origin statement that talks about you know agriculture is a virtue for the State's economy. If we don't make a case for why we should have agriculture how do make a case you know of why you want to plug through here because the negatives would surely outweigh most of the benefits we have not identified many of the benefits. We have done an excellent job of identifying the (indiscernible) and uh you know in my opinion the Board of Agriculture this is what their struggle has been for the last 3 ½ years has been since their existence but it really has been a 20 year effort since the challenges of the 80's to hold on to what we got here. We have not had much help, we have had independent opinions but we have not had much help broad based help on the virtues of agriculture in the big picture. I think you almost have to start with that premise because BAC needs this help as much as the industry needs its particular help.

**Carol Lewis**: I agree with Joe. I think the man on the street if you said what is agriculture in the State of Alaska would have absolutely no clue and I also think that it is very important that we point this out that were are looking at here is a very small very small segment of the industry. If we don't do that I don't think there will be support from the man on the street because this is what is appearing in the paper. They don't see the big picture so you need absolutely up front piece that says here is the whole industry. Now, this little se3gment that is getting a lot of attention it needs attention because it is a part of a big broader picture that is why we are focusing on (indiscernible) you have to have a reason on why your focusing on (indiscernible).

**Rhonda Boyles**: Yep that is why we are here.

**Carol Lewis**: Ya and we need to say that.

**Rhonda Boyles**: Ernie thoughts?

**Ernie Hall**: Well I kind of gathering together but I think there are some things that need to be stated very clearly. Right up front to be honest with you I think one concern of mine is going to be I like the idea of Gary and the cheese and Mat Maid but I also know that Craig just went to Wisconsin about to talk about he is going to start producing some cheese. Do we need to get into the conversation again about unfair competition because Mat Maid is going to be doing cheese and we got a local producer that is looking at maybe making cheese? For some reason some way we have got to get these lines of communication open so everybody is talking to each other and we don't end up in the mess were are now because I honestly believe that the reason on where we are is just absolutely a lack of communication amongst everybody involved here and it would appear to me that some by some form or fashion there has been an incredible job done for keeping these individuals apart. It would appear that there is a lot of misinformation that has been circulating that has gotten to the point that these people have discomfort even getting into the same room with each other.

**Rhonda Boyles**: That was my number one bullet under Dairy producers and the Division of Ag, the Board of Ag is that is the entity that should be pulling these people together in my opinion and it has not been done and somewhere in this whole process because the dairy has raised its head and let us all see the inadequacies that have fallen out the Board of Ag has the ultimate responsibility here and you all have stepped in and take that burden of the dairy off of their shoulder to give as an addition opinion. I don't want the Board of Ag to have to say yes to your report or no to your report but ultimately it is the Board of Agriculture that must deal with this (indiscernible). And that is what I said.

**Ernie Hall**: I think that it is very imperative that we make some clear statements about things that we have seen that are issues. I will tell you as a manufacturer if I had an entity in this community that would buy everything I produce at fair market value I would absolutely think I had died and gone to heaven and I don't understand this continually conflict that goes on about the dairy needs to be paying the producers more money. If there is a subsidy that has occur there but I can tell you also that I am confused by that because it would appear to me that we only have two producers that are saying they need the subsidy and I have a problem about how we write a report that said you need to give two producers this and everybody else is okay. This has to be a level playing field for everyone involved in the industry. I think we have to be very clear on how we write this report in what we have seen and what we have heard.

**Rhonda Boyles**: Mac?

Mac Carter: Well you were right in the very beginning where you spoke to Senator Ted Stevens was that the State needs to step up and because it has not in they very beginning it started this process of the dairy farming and it has just closed the door and pulled away from it shortly after that time, um there has not been enough research done either by or through the University, enough continued research to help the industry go forward and so therefore after 35 years we are sitting here today doing what we are doing. I think through the support, I think part of the issue that needs to be addresses within whatever we provide in information to the Governor is the fact that we need to step up to the plate make this industry what it should be should have been or ended up being to date and address the issues in a manner that will be responsive to everybody. We can't just give a report I don't believe that just highlights numbers that is not going to do it. If you want to sit back and said we were told to write about a 40 million dollar impact on the economy maybe it is a hundred million we really don't know unless we do that research you won't really get that figure. I think it is important to get some idea of what the industry needs in the State of Alaska if we want it to continue we have got to include that as part of what we want to say to the administration when they come in.

**Rhonda Boyles**: Joe?

**Joe Van Treeck**: You know along with that because the superstructure for the farm component is all really in State ownership. I think we need to have a little discussion about is that they way it needs to stay. If that the way it needs to be and from recommendation standpoint I have hammered on this the most because I live it a lot but Frank's got the same issue with the meat plant that what is the expectation then of the infrastructure what are we expected to do, what by design and we might not get to the finer points of that but we had some discussions on both sides of rather privatization of Mat Maid particularly could occur. If we don't think privatization can occur at least in the near term and continued state ownership has got to happen and that should be a part of the (indiscernible) of this. If it is going to happen then we need to make sure what the expectation is of those assets. What they are suppose to accomplish so you know going back to Representative Neuman so we got the measures because now were are only measuring on profit that it is goal only orientated profitability and if that is really not the goal we need to identify that and then we need to identify if profit is not the goal that profit is going to be harder to obtain how are we going to support the infrastructure side while we are also trying to support the producer side.

**Rhonda Boyles**: Joe specifically you are talking about Mt. McKinley and Mat Maid.

**Joe Van Treeck**: Ya if we really boil this down we their might be more because you have the Delta Coop in Delta that is part of the infrastructure as well right?

**Candy Easley**: Well it has a very very long term lease agreement. I don't see anything changing with that unless these somehow really.

**Joe Van Treeck**: So the same as the one dairy farm in Delta as well. There is a couple. The Delta Coop is still titled to the State right?

**Candy Easley**: Sort of.

**Joe Van Treeck**: We have a dairy farm up there that is still titled to the State.

**Candy Easley**: Yes. Though he has an option to purchase with the intention to do that so.

**Joe Van Treeck**: My thinking is that this is the bag of things it is not true private sector activity. It's got influence of State ownership to it a component.

**Candy Easley**: I am prejudice of course but I do think that ARLF is an important factor in this not just because of the draw for those assets but because we are essentially the only lender that maintains existing dairy producers but also future. Whether it is land clearing or building buildings or so I think the continued existence of the ARLF is an important factor.

**Rhonda Boyles**: I addressed that to somewhat Candy and I guess the way we are talking here if anybody disagrees with these statements here you need to just say I don't agree with that. Otherwise lack of input means you do agree with it so.

**Paul Huppert**: Well agree with them but I think the ARLF and I sit here from another segment of agriculture is critically important for the whole agricultural industry and you can't continuously let this bleed because you are effecting things way beyond the dairy man.

**Rhonda Boyles**: Paul the only way we can move to be supportive of agriculture in the State and I am saying we the Division of Ag and the Commission is that we somehow get this dairy situation in a box. That is why I came to you all.

**Paul Huppert**: I am in agreement with that. The only thing is and I heard somebody lewd to the fact that we are only talking about two people in here I think that whatever we do for this dairy industry if there is anything of a subsidy or fees that it has to be on a production credit basis and lets start hopefully the ones that are good farmers and good to improve they are the ones that are going to be rewarded. You know we can't sit here and say we are going to support anybody that gets into the dairy industry. I personally know in the agriculture industry there are a lot of dreamers and it just doesn't happen.

**Rhonda Boyles**: I made a statement of the review of production credit subsidy should be immediately started by the Division of Agriculture. I am soft shoeing a lot of these statements because you know who is going to do it for one thing.

**Mac Carter**: It is in incentive for them to produce better if they have to come to terms with what it is going to take to do that.

**Joe Van Treeck**: The other half of the equation is that if we are going to have production we have to have sales. So there is a component in here that is marketing support. There has got to be an element that because we can't just work you know I'm again sensitized to it and I think that Don Lintelman will say the same thing because he has been in the roller coaster ride to but we get so focused on putting land back into production and we don't pay attention to what that land is going to produce we end up in another rack because we have things we can't sale. So for ever action there is a re-action if we are going to put land in production we have to have a component that says how we are going to market the stuff. You put all the burden on the two processors or you put the burden on the you know the people who are trying to sale the produce or you put the burden on the people individuals trying to sale hay. If we are going to grow an intensive industry like dairy out we need to make sure we can access the market and we have support for that. It does not need to be brand specific it does not all have to be brand specific but we have done a horrible job just talking about Alaska Grown and it has been because there has been no funding that has come out of the system to help do that very little we have some legislative support but really we don't have again this over arching feeling that we are all on this team like the Green Bay Packers for 20 years I have made the comment that we need to be just like the Green Bay Packers. The town owns the football team, you can't buy season tickets they are years in advance. The dairy industry is the home town team. We should have better support for what it is we are trying to grow here, we can't talk about the virtue of the industry with out understanding how you are going to make the virtue come to pass on sales.

**Rhonda Boyles**: Joe I couldn't agree with you more but I would like how do you even know one bite at a time is this transition report going to solve every issue for every entity in the Division and the dairy industry and agriculture. My answer to that is no we don't have enough time.

**Mac Carter**: If there perhaps through the Board of Agriculture support of legislation through the State that can regulate, in California you can't bring other food and vegetables in because they are worried about bugs coming into their state okay that are regulations or whatever you want to call it. Can't the State of Alaska along the same lines when it comes to milk make a requirement that from the time it leaves the shelf on milk it has to have 14 days lead time, 18 days whatever it may require? Maybe we can go that route you are not interrupting interstate commerce which you can't do but you can have within your own State regulations to maintain a level of freshness that can be guaranteed by locals.

**Wes Eckert**: I think that has been tried and the courts rules it is against interstate trade.

**Mac Carter**: But we are not talking interstate we are talking about a level of guaranteed freshness when it gets to the State on the shelf that it is viable.

**Wes Eckert**: (Indiscernible) you would have a hard time making a case like that.

**Mac Carter**: The state would?

**Joe Van Treeck**: The other part of that Mac is from personal experience. When you are trying to make your sales through the two primary outlets really for sales are vertically held retailers you can get strangled in reverse. You have no insurance you are going to make it to the shelf and in fact their was one local grocery here that said try passing stuff like that and we will squash your local dairy. Circle 1986. I tend to agree with Wes on it from a standpoint that unless you come out and qualify this as a high temperature short time pasteurized thing only because there is enough plants on the West coast that (indiscernible) still has been defined by FDA as fresh up to 90 to 120 days. I think that would be difficult lead to find support for that.

**Ken Sherwood**: Plus you are bringing in outside milk.

**Rachael Petro**: Anyone on line.

**Rob Wells**: I'm on line.

**Doug Vollman**: I'm on line.

**Gail Phillips**: Getting back to the suggested committee structure. Not the arguments but the committee structure. I think before we get into the one page summaries on each of these we need to have a paragraph that explicitly says that either all four of the entities are tied together to make a successful dairy industry or a paragraph that says no hay and barley don't count they can stand on their own that are not (indiscernible) so I think we need to develop that overall introductory paragraph first.

**Rhonda Boyles**: Before we leave Carol how good could you whip out a paragraph no more than a half of a page. That says we have an overview statement. You articulated it best that ag is a whole industry.

**Carol Lewis**: I could probably put something together like that.

**Rhonda Boyles**: Just quick and dirty. I would say that probably that is like an introductory paragraph and its short 1/3rd page. Okay are all four of the entities that we have talked for the last four days are they part of the dairy industry? Do we want to address all four?

**Mac Carter**: yes

**Wes Eckert**: How much barley is used in the dairy industry?

**Gail Phillips**: That was my question too.

**Wes Eckert**: You keep saying that if forced on the cows they can't digest it well.  There is a small amount Ken know more than any of us about that.

**Ken Sherwood**:  In our dairy feed that we make we probably using a year 250 tons of barley.

**Rhonda Boyles**:  So if the dairy industry went away tomorrow it would not affect the hay and barley industry in the State?

**Ken Sherwood**:  Most of our barley is going in other feeds.  There is an unknown I don't know how much Mr. Lintelman's feeding.

**Don Lintelman**:  We use (indiscernible) barley in ours so barley, soy bean, vita mix and them we have a protein like a low fat protein.

**Rhonda Boyles**: So lets take it in another direction to make the Senator happy.  If the dairy industry in the State of Alaska tripled from what it is today or quadrupled would that effect hay and barley?

**Don Lintelman**:  I think it would.

**Paul Huppert**:  I don't you should just say barley.  Mr. Lintelman was alluding to the fact and it was part of the original study of the canola and it also supplies as supplement for the dairy cows.  I think that should be in there.

**Rhonda Boyles**:  Okay so we start working on hay and grain and get that one pager up so we have some substance here today.  Do we have an opportunity in hay production?

**Ken Sherwood**:  Well I'm not so sure whether  in production all these things play into it we have not be able to determine maybe we do have enough hay farmers we must never got to that point because of a lot of reasons.

**Carol Lewis**:  No the hay  producer in the State does not satisfy the demand.

**Ken Sherwood**:  It guess my point is even if you had tons of local hay a lot of horse people would still import hay.

**Carol Lewis**:  Yes they would be the demand still exceed the hay producers.

**Candy Easley**:  Maybe we could improve the quality of the hay.

**Carol Lewis**:  In the interior area there are horse owners that are switching over the Alaska hay.

**Candy Easley**: I think that is something also in detail is to educate the public.

**Ed Fogels**: In all the days I have been sitting through these committee meetings the here the one fact that hit me the hardest was the statistic that the average Alaska cow produces 12,000 pounds of milk a year versus 30,000 pounds in the lower 48 to me that summed it all up. That is the essence of why we are sitting here today our cows don't produce as much milk. Why is that it is because they don't have alfalfa.

**Carol Lewis**: No that is not right.

**Ed Fogels**: No right.

**Carol Lewis**: In the past production on average in Alaska has fallen dramatically. In the mid 80's the University (indiscernible) in the mid 20's so it is not because they don't have alfalfa they really don't need alfalfa. (Indiscernible).

**Ed Fogels**: The issue is still the fact that our cows aren't producing.

**Carol Lewis**: It is not we can't but we (indiscernible).

**Rhonda Boyles**: Okay can we all agree that there is not enough hay being produced in Alaska to meet the needs no we can't say that.

**Rachael Petro**: To satisfy the Alaskan's we can.

**Rhonda Boyles**: Do we want to address the quality issue?

**Don Lintelman**: Yep, you are going to have to are going to address the (indiscernible).

**Mac Carter**: Well that way you get the University involved to help develop a better strain.

**Rhonda Boyles**: Give me a statement.

**Wes Eckert**: Milan Shipka made his paper presented that in great detail.

**Rhonda Boyles**: That is what I said revisit Milan's information and write a short statement on that.

**Mac Carter**: Somebody from the University.

**Rhonda Boyles:** So who is going to do that statement before we leave here today?

**Paul Huppert**: I think we need an education on the dairy farmers. You know the University I know in the past years had produced high quality feed not just hay it was high moister feeds. One of the things that are dragging on production today is the lack of replacement heifers and they are milking cows longer than they should be running through the slaughter house. That is a big factor.

**Wes Eckert**: And the breeding program.

**Rhonda Boyles**: And that should be addressed under the dairy producers under that section. Okay, so give me a statement on the quality of the hay folks.

**Carol Lewis**: I think just take it out of Milan's.

**Rhonda Boyles**: Okay Rachael it looks like we'll have to go back and (indiscernible) that. Barley we started down this road a few minutes ago and did not come to any substiant agreement.

**Wes Eckert**: Let me ask some questions. Are you familiar with the Delta Barley program?

**Carol Lewis**: Yes.

**Wes Eckert:** How many acres were originally I understand 102 acres were cleared originally?

**Carol Lewis**: 50,000 acres were sold in Delta one and mid 20,000 were sold in Delta 2.

**Wes Eckert**: So over 70,000 acres were actually sold to farmers. How many acres are in production today and are they barley or hay?

**Carol Lewis**: Do you have the stats around?

**Chad Padgett**: It is 7,000 in acres in barley.

**Wes Eckert**: 7,000 acres in barley and so out of the 70,000 7,000 are in barley. Is there hay growing up there now?

**Carol Lewis**: Yes, and I am not sure what the hay is.

**Chad Padgett**: I'm not sure what the hay is.

**Carol Lewis**: It is more than barley.

**Wes Eckert**: So maybe 10,000.

**Carol Lewis**: Planted acres 4300 acres in barley (indiscernible) grass hay harvested 9300 in the Tanana valley.

**Wes Eckert**: So we are somewhere between 6,000 to 7,000 in barley and 9,000 to 10,000 in hay out of 70,000 that was sold

**Carol Lewis**: That is the total in the Tanana valley not necessary Delta. The Delta project is just in Delta there is other hay produced in the Tanana valley.

**Wes Eckert**: Was that projected supported by your organization financially?

**Candy Easley**: Sold by the ARLF and the State land section. The ARLF financed the development. The State held the land sale contracts.

**Wes Eckert**: Today is the State subsidizing that in any way?

**Carol Lewis**: No.

**Ken Sherwood**: That is not true the Delta Coop is leasing the facilities for $1.00 per year. That is a subsidy of sorts.

**Candy Easley**: yes and we give low interest. We are not taking cash out and paying a borrow ring producer.

**Wes Eckert**: So what is happening with the rest of the land?

**Chad Padgett:** 29,000 are in CRP.

**Paul Huppert**: Grazing.

**Carol Lewis**: 15,000 are in grazing land.

**Chad Padgett:** On that production we also support through direct encounter recipical payments as well as loan deficiency payments.

**Rhonda Boyles**: Okay, lets get back to keep it simple. Wes where were you going?

**Wes Eckert:** Well if you are going to talk about what are we doing in the future I was trying to get a feeling of what is going on up there how much state involvement is there.

**Carol Lewis**: There is federal involvement through the CRP program but it is no different.

**Rhonda Boyles**: Under hay and grain I said obtain a statement from Chad on CRP challenges that is brief and informational and apply to available production land. We need to address that CRP issue.

**Chad Padgett**: I have an answer finally from our Washington Office. By 2010 we have come down from 29,000 acres to around 16,000 to 19,000 that is the latest numbers as of yesterday. So by 2010 10,000 – 13,000 will come out of CRP that translates to $350,000.

**Carol Lewis**: But that is in the old farm bill. We don't know what is going to happen.

**Chad Padgett**: Ya we do.

**Rhonda Boyles**: Can somebody answer this for me. Will this effect the dairy industry?

**Ken Sherwood**: Well I would like to ask a question. Are they in CRP because there is not enough market for the barley? Or are they in CRP why are they in CRP if they raise too much barley they don't have anybody to sale to?

**Chad Padgett:** Right, right now I forget what the price is on it. I want to say it is around $198.00 per ton. So what is has done a lot of people entered into it as basically a price stabilization as well as keeping it has actually kept the supply down so that you have a higher end market with a higher end price so if that were to go away. They would only support 1,000 more acres of barley and that is from the producers. Whether or not that is accurate I don't know and then you might get a glut on the market and their price will go down making it so they can't produce barley and I have heard the same thing with hay.

**Carol Lewis**: You will produce a closed market if you have X number of cattle and you will produce X acres of barley and same if pretty much true with hay, should there be a surplus what would be the cost of export.

**Ken Sherwood**: I don't think they will ever export barley out of the State of Alaska. The transportation costs.

**Carol Lewis:** You might make a statement that you are producing to a closed market.

**Rhonda Boyles**: Chad would you give me a statement no later than directly after lunch relative to CRP.

**Wes Eckert**: Well we have never bundled that together and I was curious of what is going on there and what the future involvement with the State is.

**Candy Easley**: There for many years have been no new ag land sales. It starts with land or if they are not farming in because of CRP or there is no new market but the State for many years has no promoted large ag land sales. So it really has been idle.

**Wes Eckert**: Also we were told before that some of this land is just growing back up to brush.

**Ernie Hall:** I guess the thing that is important to me is what I heard during all of these conversations is that the dairy farmers are buying all of their hay from the hay producers in Alaska. Is that a true statement or growing it themselves.

**Joe Van Treeck**: In the 80's when Mat Maid owned the coop we imported alfalfa hay and cubes out of British Columbia and that might have been in the era. As a source I suspect that industry imported hay from outside of the state has the same problem as the cost benefit analysis for the cost of milk production. You can't pencil out the influx is that right?

**Carol Lewis**: Well you can pencil it out sure as fuel costs rises they are becoming more and more (indiscernible).

**Joe Van Treeck**: Also, I would like to go back to what Ed was talking about because not knowing production in agriculture. The question I have in this is that Milan tends to have difference in my simple brain to this feed issue than what you are talking about?

**Carol Lewis**: No I don't think so.

**Joe Van Treeck**: So what am I missing in this. He is talking about poor quality feeds.

**Carol Lewis**: Oh sure he is talking about poor quality feeds but he is not saying we can't produce good quality. What he is saying is that there is poor quality hay being produces and sold.

**Joe Van Treeck:** The difference between grass hay and timothy is what?

**Carol Lewis:** You got me there.

**Rhonda Boyles**: Okay Joe where are you going and what do you want to say here.

**Joe Van Treeck**: Well I want to make sure that we are dealing with the question Ed raised when we are dealing with because it is going to take high quality feed to feed these cows where is it going to come from.

**Rhonda Boyles**: Can we produce better quality feed?

**Carol Lewis**: Sure it just costs more money. If you let your hay grow and you harvest to get more bulk in your bails you are going to lower the protein in your hay it is a matter of dollars.

**Gail Phillips**: At this point in the time the University needs to be involved in developing a higher (indiscernible) for the cows in Alaska

**Carol Lewis**: I think it is production practices. Groan hay is excellent hay but the rate of fertilization will affect the protein, the time of harvest, the weather will affect it so it is production practices.

**Rhonda Boyles**: Carol give me a statement that we can put in this report that will say to the State we are doing this but we could do it better this way. What did Milan say?

**Don Lintelman**: Well I cut some this year with 14% protein so alfalfa will go up to 24 and their again you get good alfalfa and bad alfalfa also so it is a timing like Carol was saying when you cut it and then again you have to put something into it to get something out of it so you got to put the fertilize on and if you don't take soil samples so that plant don't get it and if the plant don't have it the cows won't get it.

**Rhonda Boyles**: Don give me something tangible. I know nothing about what you are talking about because I am going to read this report so talk to me. Is there a problem with existing hay production and if there is how to we resolve it?

**Don Lintelman**: Yes if it don't rain and I put the fertilizer and you don't put it on again and sales it that poor farmer is buying a poor quality feed. What he needs to do is have somebody take a feed sample and pay for the grade and it needs.

**Rhonda Boyles**: Okay can you give me a statement that says what we are doing now is not appropriate and we need to do this to improve it?

**Carol Lewis**: I think you would be better of with a statement that says if you (indiscernible) you will increase milk production.

**Rhonda Boyles**: If we do what?

**Carol Lewis**: If you feed the cow with meats which means you have to know what you are feeding them.

**Joe Van Treeck**: I'm like you because I don't understand this part either, but what if we could you not say I would like to borrower a comment that Mr. Huppert made. Could you not say in order for dairy production for cows to maximize that conversation from feed to milk we need to have a standard for dairy hay?

**Don Lintelman**: Yep, you also need to put a label on the feed bags, very important. If I buy soy bean meal in my mix and I come up with feather meal what the hell is this the cows go off feed and I don't know why, so I got to bring a vet in from outside which I did and he spent a whole week $3,000 later I found out it had feather meal in it instead of soy bean meal. I paid for soy bean meal even if the price of soy bean meal is higher I will pay the higher price rather than have my cows go off feed and try to get them to switch to something else.

**Rhonda Boyles**: Joe translate that.

**Jo Van Treeck**: Well it goes back to the broader statement that says as a producer of the grain or the hay I need more than the dairy farmers can afford to pay then I can apply for production credits as well.

**Rhonda Boyles**: I didn't make that leap.

**Candy Easley**: You lost me too.

**Joe Van Treeck**: Well we are talking about dairy farmers being able to apply for production credits if they need a subsidy beyond the commercial value of their product.

**Rhonda Boyles**: Okay.

**Joe Van Treeck**: It is the same leap backwards. On other words instead of running all the production credits to the dairy side of this maybe each component of this thing gets a chance for a production kind of credit to offset costs versus commercial value of the product itself.

**Candy Easley**: Give them production credits if they invest more money into a higher quality product.

**Joe Van Treeck**: Higher standard fee.

**Chad Padgett**: Joe that is exactly what we are doing to the 2007 Farm Bill on those production credits. Not for just one industry but for all of them so there is model that is actually written in the congressional language and has been there for 3 years. They are waiting on the Farm Bill, so that model is that 25% I talked about it is the same, 25% of those production costs would be paid that way you offset it. The problem with high quality feed is you can't afford to do it.

**Carol Lewis**: I am always interested in the can't afford because I don't think you can afford not to. If you put good feed in your cows you are going to get more milk.

**Rhonda Boyles**: Okay time. Rachael is going to read to you what she just gurnard from this exchange.

**Rachael Petro**: In answer to the question do we have an opportunity for hay production? There is not enough hay being produced in Alaska to satisfy Alaska demand but the choice of feeds available in Alaska is limited as compared as what is available in the lower 48. Quality of hay in Alaska being fed to milk cows is lower than that of hay feed fed to similar cows in confinement in the lower 48. Producing better quality hay is possible but it is generally more expensive. Production practices are an issue, fertilizing, time of harvest not necessarily research from the University that is what I heard you say.

**Carol Lewis**: I would not necessarily research from the University.

**Rachael Petro**: I said not research from the University but the production practices are there.

**Carol Lewis**: Ya, we have well documented (indiscernible).

**Rhonda Boyles:** We have some disconnect here folks just because we are not getting our message across.

**Rachael Petro**: Upgrade quality of hay produced in Alaska and milk cow production will increase in order for milk cows to maximize production there must be standards for hay feed to promote cows and must be identified by standardized labeling. I am just typing out notes here but there is a lot of information that is summarized and we could tweak it into positive statements and (indiscernible).

**Paul Huppert**: You know Carol there is one thing that really outstands me. You know we have about 120 growing days in our area and from mid May from mid July we have an immediate drought it is dry time. Those people who irrigate down in Pt. MacKenzie and have circles have tripled production and I would say beyond a doubt of anybody that does not irrigate. If you took a fourth of the area produced today and irrigated them you get a better quality product you would have it in a more timely fashion and I have never seen the University come out. I think it is a critical thing. In the ARLF the State years ago had (indiscernible) for irrigation groan. I fly over that area and you can't believe (indiscernible).

**Rhonda Boyles**: We have what we maybe could be doing differently what we are doing good bad or indifferent with hay production. Give me a statement what the State can help us do or the Federal government to do this better. You are going down that road with production credits. Give me a statement on that. Because we are going to want to tie production credits into this report right?

**Joe Van Treeck**: I think Rachael really picked it up good enough it is really about we are going to standardize a dairy feed you know you standardize a dairy feed either whether it is hay or grain that people would qualify for then if they grow that standard it is measurable then they can apply for credits to off set the market value.

**Ginger Blaisdell**: You have brought up bringing the University into it. Does that just lend credibility to the information or are they actually doing research?

**Carol Lewis**: No we are doing research.

**Ginger Blaisdell**: Okay.

**Carol Lewis**: That is where you get the best (indiscernible).

**Rhonda Boyles**: Do you have the money you need in research Carol? If you had more could we do a better job with our production?

**Carol Lewis**: Sure Sure

**Rhonda Boyles**: If we had another body could be educate hay producers to produce another product?

**Carol Lewis**: I don't know what it is going to take to educate hay producers to produce a better product because the University has been trying for 45 years.

**Rachael Petro**: It seems to me this is a market issue. Unless dairies demand the better quality and they are willing to pay it is this whole you got to be willing to pay more because it is for hay producers to make better hay it is going to cost them more. So it comes back to the production credits but there has to be an incentive for them to change what they are doing because as we just examined they are not even meeting Alaska demand.

**Ginger Blaisdell:** I think that is what the University needs to do. They need to do a marketability study that says if you fertilizer at the level your production goes up here and you make more money.

**Carol Lewis**: How many more publications can I bring you where we have said that?

**Rachael Petro**: Well the other side of that is the dairies have to want to buy it and it will cost them more and we already know that the costs inputted in getting 12,000 pounds of milk out of one cow is a lot here.

**Rhonda Boyles**: Will production credits be an incentive to have them do a little bit better job?

**Ernie Hall:** I guess I am totaling baffled by this because I am not involved in industry that that federal government helps me out in any form or fashion. But I do tell you that I have the choice when I build a piece of furniture I can either use a grade C or a grade A lumber if I use grade C I sale it for $100.00 if I use grade A I can sale it for $600.00 so it is not a hard thing for me to figure out and that is what is baffling me here about all this conversation. We know that if the dairy farmers buy better hay they will I don't know if they will double their production but it will certainly increase their production by a large margin and we know that if they grow better hay they will get better money for the hay. I am baffled by why we have a problem here it seems logical that if I were a hay grower I would grow better hay and sale it to the farmers who are willing to pay a better price because they are going to make a drastic difference in the production of their cows. I mean this seems pretty simple to me and I am baffled by why I should give a farmer an incentive to grow better hay is he going to subsidize the dairy farmer by selling it at the old price or is he going to increase for the value of the better product. I mean this is.

**Chad Padgett**: It comes back to they can't afford it. Rachael just said it a second ago. They can't afford to do exactly what you are talking about. I don't think it is a lack of willingness but they are already in financial trouble as it stands today how can you put any more money into it.

**Ken Sherwood**: That is basically we sale fertilizer these days and they know all this stuff they know it they just don't like chances they don't have the money to fertilizer more or sometimes the weather if a factor too. They may want to cut it early and they can't. Basically they know all these things we are talking about they just don't have the money to do it.

**Rhonda Boyles**: So should we still subsidize it?

**Ernie Hall**: I am still baffled by it and the dairy farmers don't have the money to buy better hay.

**Rhonda Boyles**: Should we be subsidizing this industry?

**David Wight**: I still don't know because what it amounts to is what I have heard is very good arguments that the cows can produce more if they have a series of better management practices around them that are expensive but none the less it is around breeding all sorts of things and it is around feeding right. I then I just heard that it is possible to grow the better feeds but it will cost a little bit more but nobody has told me that the cow that produces 50% or 100% more couldn't pay for the differential in feed. That is Ernie's argument he is saying do you need to do something and it seems to me in just listening except for maybe a few people like the gentleman sitting next to me this industry is kind of settled at the lowest common denominator in terms of feed and productivity and everything else I can't understand why.

**Rhonda Boyles**: Okay, do we subsidize it?

**Wes Eckert:** The experimental farm in the valley has had an (indiscernible) department for what 8 years and they have done some wonderful work and I think every body knows what needs to be done. They have done some wonderful work over the years. I don't think it is a rocket scientist or something knew we are talking about here.

**Rhonda Boyles**: We can all agree with that. There is not one of us that disagrees with that statement. But is this industry going to survive without any subsidization we have to address that and if so how do we subsidize it and if we don't subsidize it?

**David Wight**: Rhonda they have had subsidies for years and look where they sit today. Okay and then what I just heard they have had all sorts of input on better feeds, so I am not sure that the subsidy does anything. It has to be a (indiscernible) stage in the way the business is run.

**Chad Padgett**: If you look at the country and the amount of federal farm subsidies across as the states we don't come close to the level that other States are. On a federal level we provide just on my agency alone .0001% of the federal farm bill not per capita basis we get the least amount of farm bill in the State.

**Carol Lewis**: This is the eligibility requirements to enter into some of the programs.

**David Wight**: It isn't a good matrix is it because on a capita basis we probably have less farm land?

**Chad Padgett**: It is on a per capita basis. Every where else it has been realized that you have to do that in order to build your infrastructure to support the agricultural industry. Here we haven't done that.

**Ed Fogels**: These are some really good points and I am trying to think what I am going to have to tell the next Commissioner that comes walking through the door December 4th and I am one of the things I would really like to explain to him in a nutshell what is up with subsidies with the agriculture industry in Alaska, how much to we subsidize, what do we get out I have seen some numbers for overall economic impact of the dairy industry and I would like to compare that to what is going on in the lower 48 is Alaska different, how do we compare with the way we subsidize agriculture here.

**Chad Padgett**: The Division has a comparison.

**Ed Fogels**: I think that would be real important to have to just leap out of you somewhere.

**Ernie Hall**: Rhonda I guess where I want to try to have some clarity is I have no doubt that if the dairy industry is going to survive in the State of Alaska it is going to need subsidy. I am not prepared to present a document that says in perpetuity I think the problem with the industry here is that we never taken the time to bring it to the level that it should be we threw some money at it early on and then there was no oversight or accountability. I don't know what the reason is but we have started here and never moved it and we need to be put some subsidy in it as for hay growers dairy whomever we need to identify that I think we need to identify that those who are knowledgeable will tell us that if you could do this that within two years they should be producing this level of hay and at the same time if the dairy farmers are buying it and their production is going to increase some time they have to get to some point sustainable even if it is still a small subsidy with it and Chad certainly has more knowledge than I do I have an uncle in Nebraska that is richer than I can't even imagine and he is rich off the subsidy, he makes more money not growing corn than he makes growing corn. He has an incredible thing going for him.

**Rhonda Boyles**: Can you look under dairy producers we are off the subject of hay and barley a little bit here but it all ties together. I made a statement for next three years we should measure results with timely and relevant statistical information from all producers relating industry through the University of Alaska's existing programs and in cooperation with the Division of Agriculture. What I am saying there is yes we are saying we need subsidy but lets take a look at it for the next three years very closely to see if it is moving the needle in the right direction and then I am saying all subsidies should come from sources other than the Creamery, Mt. McKinley or ARLF. There might be a better way of saying that conceptually and maybe you don't agree with that but this is the best I could come up with bases on Ernie knowing what you are thinking and knowing what your thinking David. Do we disagree with that statement? Do we? Philosophically do we need to subsidize for a period of time here?

**Gail Phillips:** I don't think it is complete because your premise there we should measure but after the three year time period if the measurement is way way down here and there is no improvement and know showing that it is profitable then do we want to make a statement that says it's out, we just dump it.

**Rachael Petro**: I think we should name what results we are looking for specifically otherwise it is one of those we feel better.

**Rhonda Boyles**: I think it is pretty obvious we will have more dairy cows Joe will have more.

**Ginger Blaisdell**: It seems like in all of these meetings it has been very much this is what is happening today and it has been a very short vision for everyone and the one thing that I heard consistently is that each of the major producers their children don't want to take over their business, they can't sale it because there is not enough value in it and I am real curious with the next generation maybe in the next 10 years will anybody see farming as a valuable industry just personally and maybe you get to the point where you have to make it a desirable industry if you want to keep it.

**Rhonda Boyles**: And we are only talking about dairy.

**Ginger Blaisdell**: Right and that is much further beyond three years to see if we have some more cows and we are producing more because in 10 years maybe someone won't buy those farms is someone retires or even illness where this is family owned.

**Rhonda Boyles**: Personally I am begging for us to address dairy in some format so that the BAC/Division of Agriculture to move forward and do some of that Ginger. What are we doing spinning our wheels. I suspect that Don't not going to have a problem figuring what to do with your farm if you have a couple of kids that you have raised up right? I expect Paul who is already exam plying it and yes we need to document, make that tangible and say this is working and this is how it is working but that has to be the Division of Agriculture and the BAC in my opinion. That is why I said let's address dairy because it is will set a philosophy in what we do with the rest of it. So we are still talking about hay and barley and I want to finish that statement before we go own to talk about the dairy.

**Gail Phillips**: Don brought a real good point that would be an easy thing to include in here and that establishing state regulations that clearly identify and label food sources that is an easy one and if it is not already being done in Alaska that is criminal and we should already be doing that.

**Joe Van Treeck**: What about irrigation and if irrigation can really provide the extra ump for volume unlimited base should there be some statement promotion for irrigations standards and those kind of things.

**Carol Lewis**: We don't know what those would be right now Joe. As Paul says as far as numbers.

**Paul Huppert**: Well we have used irrigations for years and I was always surprised when every crop raised at the University hasn't been doing my work, but our increase let me give you an example. Potatoes I would say the State average is about 10 tons without irrigation we have 22 to 25 tons with irrigation and the thing about it we apply a fertilizer like Don is talking about if you don't irrigate the minute is you apply irrigation in early May by mid June you are ready to harvest your crop and that is still in your best period of time to do this. Terry Wilder has irrigation and he has a fantastic crop. I believe that I would safely say you are going to give it at least three times more production and like I said before the State recognizes along time ago.

**Candy Easley**: I inspected one farmer every summer for three years and there are the pie blades. What I was going to mention with regard to production credits and that is not a new idea it happens all over the country but the beauty of the production credits is you can make it whatever you want you can use irrigation if you want. You can set the category isn't the case of giving the money out, it is very specific as to what you want to give and then saying (indiscernible) and irrigation would be one of (indiscernible) certainly fertilizers, you can do it for increased milk production, increased numbers in livestock, you can make it for whatever you want. At least with the production credits it forces an incentive or it gives them an incentive to do better if they don't do better at what they are doing then they don't get the money.

**Rhonda Boyles**: So we have not made a statement under hay and barley relative to production credits. Do we all agree we should?

**Candy Easley**: I think that you could make a statement on production credits for everything that you are doing.

**Rhonda Boyles**: Right, right, that is good because you tell them once, twice, threeism, fourism by the time we get there the A of the BAC oh we should look at this.

**David Wight**: If we are going to talk about production credits in some of these sectors my preference would be that the credits are related to improved productivity they are not related to how much you produced today. If you are going to put more money into you are asking people to do things, to change the way the live. I just heard a discussion that loans were given out for irrigation equipment and it sits there. Why do we want to go down that path? What we want is better quality product, high productivity if we are going to do credits let's say that they are related to improvements in the quality of feed not just how much feed you produce and if you are going to get money for milk it is milk per cow as compared to just the volume of milk you produce and it could be related to two I mean you could figure out how to put this thing together but I think there should be some relationship between where we are driving otherwise won't get there. We will look at it three years from now five years from now and it is the same low quality feed because they were getting paid for it.

**Rhonda Boyles**: What did you get from that Rachael?

**Rachael Petro**: Credits related to improved production, not more than today but actual demonstrated growth better quality product, higher productivity and then I stopped writing because I think we and I can jazz this up later. If we are talking about hay and grain production credits I don't think measuring gosh I sold my hay to Rex and he didn't really feed it right so his cows aren't producing more and you know. It has to be specific to that and so a standard has to be established so we have the regulations so is that going to be the top borrower. Those would just have to be identified. So it sounds like that is not an issue maybe become an issue.

**Chad Padgett**: Rachael maybe this would help. I thing that what Ed is talking about in many of our programs you have a quantity and a quality aspect where you get so of you break it down quantity and quality that gives you a pretty good system for your credits.

**Carol Lewis**: There is no standardization measure for hay there is for barley.

**Rhonda Boyles**: Any comments from anybody at this point about production credits relative to hay and barley?

**Mac Carter**: Well getting back to the State regulations for labeling (indiscernible) regulations to set those standards for hay, barley.

**Rex Shattuck**: So making sure I am understanding you are saying that the standards by the BAC will be developed to cover quality and quantity of some mix.

**Rhonda Boyles**: Chad you are still going to give me a statement about CRP. Does anybody want to make a statement? I put a statement in here because we want to tie it together relative to what I heard was that the ARLF loan is an issue and ultimately we need to address that. In addressing that do we need to do a statement? Candy 60% of our loan portfolio is to grain and forage and they are performing and doing well. Anybody disagree with that?

**Carol Lewis**: I think you might want to talk about what is the deal with federal loans in terms of price supports, production credits I think the folks in the state aren't aware. A statement it could be just a statement on subsides for the various commodity groups and what falls under commodity support programs and what does not. Just as an appendix.

**Chad Padgett**: Sure it is a little complex.

**Rhonda Boyles**: It could be an addendum.

**Chad Padgett**: I have a white paper on each of the programs and who provides support and those are all ready to go.

**Mac Carter**: One last thing that I was going to say was would it be fair to say that true institution of the credits by improving the quality and output of hay and grain and whatever through the State would then enable those farmers in the State to receive credits from the federal agencies as an also substitute or would that improve it.

**Chad Padgett**: I think your (indiscernible) of what I might be careful of is some other thing that we have is called majestic gross income requirement. Where you might want to consider a if the State's is going to do something is we cap. So you have to meet a couple of different requirements one is the cap which will probably go down in the next farm bill is $2.5 million dollars in gross receipts. If you make over that amount you are not eligible so secondary to that you get into a lot of corporate structures, joint ventures and things like that. So if you put this on we cap most of our payments at $50,000 per individual and then there is another cap for corporations and things like that so the idea is that you are not over subsidizing and you are not giving a credit unfortunately what that does on the federal level is bring down basically in some cases you re rewarding people that aren't your best managers so I think that is something you got to be careful of and they way that happens is once your get to a certain threshold then you are no longer eligible for it so even though you are managing wells and doing well you are not getting the same credit as maybe somebody who is not managing well. Does that make sense and they are managing to get the subsides kind like what we are talking about.

**Rhonda Boyles**: Okay we spent and hour and ½ on hay and barley. I still don't know what we are going to do with barley. We all kind of talked about that we have no export opportunity and that soil conditions were irrelevant are those two facts.

**David Wight**: Let me ask a question. Or I'll make a statement and make sure it is correct. I didn't get the impression that relative to the issue that we are talking about that barley isn't significant and therefore it is part of agriculture I understand but we are not looking at all agriculture. We are looking at dairy side so you can probably have a sentence or two about barley and we are done with it.

**Rhonda Boyles**: Skip barley. Okay give me a sentence.

**Carol Lewis:** Well it is an important component in the ration of dairy cattle in the State of Alaska.

**Mac Carter:** I think you could simply say that barley could be increased based on the increase of the dairy industry.

**Ken Sherwood**: I read Milan's thing and we are going you are right I agree they are feeding it whether it is good or not but it all kind of enters in you know.

**Candy Easley**: Is all the barley produced in the State purchased? Increased production is there more demand there.

**Ken Sherwood**: Chad Padgett said they are in CRP because they don't have a market for barley.

**Chad Padgett**: Where are you going to sale it? You got to have a market.

**Carol Lewis**: I hate to be cynical but when you can more easily put your plan in CRP and draw money for doing nothing rather than doing barley.

**Rhonda Boyles**: Is that something we can control?

**Chad Padgett**: No.

**Rhonda Boyles**: End of discussion.

**Ken Sherwood**: I kind of agree with Carol because even though barley is not the best dairy feed in any rations you can have a certain amount of barley.

**Rachael Petro**: Barley is an appropriate ration for feed for milk cows.

**Don Lintelman**: I can bring my ration down and how you.

**Joe Van Treeck**: Well is it just barley or are we talking grains because there are goats out there to right. Is all this just used for silage or are we using it or more grains.

**Don Lintelman**: Oats has more grain in it then barley so we feed two wheel barrow per ton and I don't know how much is in the wheel barrow.

**Joe Van Treeck**: So instead of defining barley separately we are talking about grains. I would like to ask Don if it is not propriety what is your production. Are you in the 12,000 pounds per cow range or are you in the 20,000 pounds per cow range.

**Don Lintelman**: Well we are in about 16,000 pounds.

**Joe Van Treeck**: You said we could talk about barley as feed grains so we are not separating one product out from the rest.

**Ed Fogels**: We are trying to find the best possible feed to feed the cows. That is the University. We are going to need strong leadership from DNR. We are going to need everyone to come together to find out what is the best stuff to feed the cows, barley is part of it, oats is part of it (indiscernible).

**Joe Van Treeck**: So what I wrote down was hay and grain needs to be augmented with imported products to produce the highest quality ration.

Any grain needs to augmented with imported products to produce the highest quality ration.

**Ken Sherwood**: Yes, you have to import you can't raise soy bean meal and corn.

**David Wight**: You don't need that word. What you want to do is have the best feed don't describe the best feed.

**Rachael Petro**: Hay and grain needs to be augments to get the best feed rations.
END OF TAPE 1

**Rhonda Boyles**: I have lost control of this group. Ernie you are number one, Joe's number two, Wes is number three, Ken number one, Paul number two, David number three, Don number one, Mac number two, Gail number three. All the number ones have to work on a statement about collaboration if you look at the sheet that I did there is a statement already there. Mark it up tell me if you like it or don't. Did you get your numbering system down? Dairy producers. Number two research all numbers two's will work on a statement for research. All number three's will work on a statement for measuring result. I kind of started it there in three comments but you can fine tune it and then we can come back together as a group and maybe we can move it along a little bit faster. Rex I left you out. Industry is the statement of collaboration.

The next lengthy statement down is fourth one down and number two on research. Paul we are here.

Okay lets try to divide here and conquer because we could go on all day with any one of those three subjects but they have to be addressed in this report. Okay.

**Ken Sherwood**: Can we get together.

**Rhonda Boyles**: Yes, please do get together and you can talk to your hearts content.

**Rex Shattuck**: Let me ask a question before you move on. When we broke the comment that was made was that we were talking about making a statement that grains were needed or whatever, statement of product quality. We were talking about giving direction. My question would be this in light of the fact that this report might find itself out there and it being introduced into committees in Juneau or discussed are we making an analysis of were ag is or where ag needs to go? We talked about an incentive or are we going to start giving directions to producers on how to mix their feed and such. It sound like

**Rhonda Boyles**: Well we do Rex and I think you and David both missed my opening statement and Wes's opening statement. Wes wants more substance and data and so do I. I think we need to put some more facts and figures into the report. My opening statement was are we going to kill this industry and send it away or are we going to be a little more compassionate and let economics justify. We can't just sit back and ignore the fact that we have an issue and if production credits are to be used we need to make that statement. So no we do not micro manage.

**Rex Shattuck**: Production credits are one thing and I would full agree with you on that end. However, the statement that was being made was to say to producers to enable to produce good quality product you need to mix grains in such a level. That is a policy statement that you were making.

**Rhonda Boyles**: We all micro manage in this room because we are all in specific area and that is what you are picking up on, no this report does not need to go to that level.

**Rex Shattuck**: You are not going to include a statement in there that says grains, barleys and hay.

**Rachael Petro:** One discussion and one recommendation basically to identify hay feed or any feed for it's contents. So like Mr. Lintelman was saying that I thought it was soy meal but it was feather meal.

**Rhonda Boyles**: Okay, all the number one's are working on a collaboration statement, number two's working on a research statement.

The committee broke off in groups; no recording was done at that time.

**Rhonda Boyles**: That is we think we need to call the horse in the middle of the table. We had a lot of input from two producers in the last three working days we have been together. Those were two producers there are others and I think we need to keep that in mind.

**Paul Huppert**: We have three producers we have a producer at the table.

**Rhonda Boyles**: Yes, we did. I appreciated their involvement and I think that what they had to say was substantive and educational and can we solve all the problems of the world wouldn't it be wonderful but we don't have a magic wand. So, number one group collaboration. Rachael I think that got finished rather quickly.

**Rachael Petro**: Yes, Collaboration. For the dairy industry to be viable the producers, creameries, slaughter, Division of Agriculture, Farm Bureau, USDA, and State of Alaska Legislature must immediately start working together to promote the dairy industry in Alaska. All parties should move forward as a collective and organized unit the Board of Agriculture & Conservation facilitating the effort.

**Rhonda Boyles**: Discussion?

**Ken Sherwood**: That was the recommendation.

**Rhonda Boyles**: Uh Uh, Wes is laughing

**Wes Eckert**: Good luck. Is that a realistic statement?

**Gail Phillips**: Would you read that again, please?

**Rachael Petro**: For the dairy industry to be viable the producers, the creameries, the slaughter, the Division of Agriculture, the Farm Bureaus, USDA, the State of Alaska, and the Alaska Legislature must immediately start working together to promote the dairy industry in Alaska. All parties the should move forward as a collective and organized unit with the Board of Agriculture & Conservation facilitating the effort.

**Rhonda Boyles**: As the Chair of the Board of Agriculture I would say that our entity should mirror the composition of that statement. If it does not we should work towards that immediately.

**Rex Shattuck:** I think when the producers were here one of the comments that I heard were that I don't know if it is about time but, I think they said once or twice that having everybody here was a satisfaction to them.

**Joe Van Treeck:** The only thing I would like to offer instead of creamery as a singular I think we should talk about processors.

**Mac Carter:** There is more than one.

**Rhonda Boyles**: Good addition. Any other comments on it? Good job. Number two the research component.

**Mac Carter**: Research. The State of Alaska must work multiple aspects of the University of Alaska in expanding further development and research to support farms to increase productivity through the production of higher quality feeds. Feed animals and animal products thereby increasing higher yield production, higher quality meat and milk products and food safety for Alaskan consumers. Under that we have four bullets: Through extension specialists, Food specialists, food safety and marketing. The goal of this is to maximize production across all areas on farm process and marketing with an emphasis on making use of cutting edge technology and practices and at the same time capitalizing on environmental, ecology friendly practices.

**Rhonda Boyles**: Comments?

**David Wight**: Do we need research or do we need more application of existing (indiscernible) I keep hearing.

**Carol Lewis**: Well we have to expand the application of the both the existing (indiscernible) in

**David Wight**: Well it sounded to me like a lot that we already know that has application. So

**Paul Huppert**: That is why we put (indiscernible) is the arm that goes out and promotes that application. Applied research.

**Carol Lewis**: The specialist will do the basic research.

**David Wight**: My request would be to rather than research it is around application and research rather than just research.

**Carol Lewis:** How about research and demonstration.

**David Wight**: What areas? It just didn't seem like to me that what we need is more research. What we need is at least a lot more application of what is already known through one way or another as compared to going out and doing another study.

**Mac Carter**: We can change to expanding further research and application.

**Joe Van Treeck**: I just wanted to also tell David that we weren't limiting our field vision to on farm. That is where the food science and the rest of this came in and on the eye to the future that if global warming is a real deal why not be on the front end of doing applications here that you might not do in Mississippi.

**David Wight**: I would agree with that.

**Joe Van Treeck**: So and then along with that you want to make sure that you make environment standards where you got a complete system you are not just taking advantage of what you got you are putting something back. Because our agriculture infrastructure here is fairly limited to systematically look through that whole cycle.

**David Wight:** I guess you kind of characterized my I think our time line is such that we can't wait for research to find our way out of this for us. That there is a lot of good application opportunity out there and if we are going to start to make progress we got to do that our we might as well clean the slate and go work on something else. I think Don has demonstrated that by being very, very, judicious about costs and understanding on what it his productivity does is 50% higher than the average dairy in the State. No it is more like 50. He is 16 versus 12 and if you take his number out of the other one it goes down.

**Rhonda Boyles**: So does that statement everybody can agree with that at this point? Okay, we may have to word it down to a half a page but.

**Rachael Petro**: Okay, we can make it into a couple of words.

**Gail Phillips**: Measurements. The discussion was that measurements for the dairy producers should be tied to results not activities. Subsidies must be tied to measurements standards that provide for the greatest production of milk. These measurements must include the cost of hundred weight of milk, cost of produce per animal productivity cost, milk feed ratio, compensation of milk products which needs improvement we think, individual animal performance and total farm performance and marketing costs versus return on product. All of those things, those measurements to get the greater product must have a direct tie in correlation to the subsidy a dairy producer would receive. That is why I said there has to be an end result. We also, said it should be five years not three because by the time you go through tested and measurements, measurement performance, legislation it is going to take one year for the department to come up with this and another year to go through the legislative process. You got to give the milk producers sometime to put it in place and make the adjustments to it that he feels needs to be made. We deleted the reference to the University of Alaska existing produce programs because we don't think they are in existence in order to do this, so there.

The University had there great experimental farm and all the different programs they had we don't feel that there are programs there right now to push the Department and the Division of Agriculture forward the President doesn't have agriculture on his radar, the Board of Regents doesn't have agriculture on their radar and we feel that there needs to be some changes there. So if you are going to tie it into the University of Alaska than you got to go to the next step and say get the Board of Regents and the President and everybody associated at the University (indiscernible) let me give you this example. The new biosphere building that is going in the on the University Fairbanks campus has nothing to do with agriculture science. It is going to be all the other research and science for a mirror of other things, but they have not mentioned a tie into agriculture.

**Carol Lewis**: Although in the past five years, that agriculture and forestry is now on the Presidents radar, but it needs to be re-enforced by the people who are out in the community.

**Rhonda Boyles**: Or the BAC needs to invite the University to the table to part of the problem solving concept in agriculture.

**Carol Lewis**: The BAC and its supporters need to bring their concerns to the President and to the Chancellor. By the way the Chancellor will be in Palmer tomorrow at the library in Palmer at 6:00 p.m... I have done a lot, others have done a lot to put agriculture on the radar but, the comment I get is so who cares.

**Rhonda Boyles**: But Carol a concerted effort by enough people with this collaborative message makes a difference because I go back to my Voc Ed days when we had meetings like this because nobody was teaching Voc Ed at the University and it is way, way, up there on the radar screen 10 years later. So.

**Carol Lewis**: It takes the community it is important, the industry and people outside the industry who want that.

**Rhonda Boyles**: So we leave that statement in, cool, okay. Any other comments?

**Rex Shattuck:** Just a question could you clarify the timed issue again.

**Gail Phillips**: It says for the next three years we should measure results with timely and relevant statistical information. We are saying they can't do it in three years. By the time you put this in place, by the time the Department comes up with a direct measurements, results tied to an end result and then the legislature approves it will take a little more time.

**Rex Shattuck**: It tied into what we did so I was wondering.

**Rhonda Boyles**: That is where we are heading next, Chad, Candy, and Rex.

**Candy Easley**: Now I just want to say that Chad and I worked really well together.

**Rhonda Boyles**: Subsidies. Going through for lack of anything better what we have in front of me you address the $2.00 per hundred weight, you addressed production credits and that was it.

**Candy Easley:** That is all you assigned us. All right this is what we recommend. Sustain the State dairy production price support at $2.00 a hundred weight for a period of not more than three years or until a State production credit program is implemented and a couple of comments on that was we thought well all of these things we are talking about are going to take time, a lot of time even with legislation, regulations take time and some of the industry people don't have a lot of time. So assuming this committee supports continuing this. This would only be a short-term support and so we felt like we should only continue it as is at $2.00 per hundred weight instead of trying to band aide at what we are guessing will give it because we are not sure.

The only thing is we did not want to recommend the second thing which is production credit program and have it also paying with the dairy price support program so we are looking at this first statement as a band aide until we get the other thing implemented.

The second statement was we recommend implementation of a State agriculture production credit program with five year review to coincide with the Federal Farm Bill and so we were also looking at this three year and then well how long and we thought it sounded reasonable to coincide it with the Federal program too and the only other thing and there was no way we would have enough time to decide this was this the support of an ag production credit program does this committee only want to support it for dairy production only, or do you want to carry it further in hay and grain and all ag production and so I don't know how in your statement or if you want to address it. So that is what we have.

**Gail Phillips:** We discussed several other subsidies that too that aren't listed there and what we found is that we would like to have a list a published list of all subsidies that go to the dairy producers. The $.34 per hundred weight for milk pickup is a subsidy every other day is a subsidy that needs to be included there. The quality for local product subsidy which is $1.00 versus $.06 in the lower 48 that is a subsidy so realistically every single subsidy needs to be identified before this report is completed.

**Rhonda Boyles**: So in order to get the pulled together. We got creamery, we got Division of Ag and Federal, know? Processors.

**Paul Huppert:** I would like to ask you know Senator Stevens came up with this cola idea and I didn't quite understand, but is anybody looked into that or paid any attention to that. It was for Alaska and Hawaii.

**Chad Padgett**: Ya, that is what I have been talking about the cost of production credits. What that is where you get 25% for land clearing, burn removal, just about any Alaska grown product and it has to be Alaskan grown. Will get a 25% production credit for implement on labor and possibly on transportation. So basically you bring in your receipts at the end of the year for everything that went into your farm for 25% credit back but you would have to show that in order to get the credit there is a lot that will have to be worked out when it gets to regs. But that is the intent of it; it is to put more cash flow into the community, implement dealers, that is the intent of that.

**Joe Van Treeck**: That could be a directly payment or it could be processed against debt?

**Chad Padgett**: Actually it has nothing to do with debt it is a direct payment this one is not tied with debt, so it is across the border in Ag for all Alaskan Grown products. So you are not quantifying it for any given commodity you are not quantifying it for debts everybody gets it and this where that quality and quantity come into play. You would have a higher step for higher quality than somebody who doesn't have higher quality so it's not just for how much you produce it is also your quality.

**Rex Shattuck**: Measures for the results under that program an awful lot of what we envisioned would create the production credit. You can't sit here and understand fully and draw the picture of what those production credits would represent before. I think the measures for results go along way to identifying some of the issues or concerns that would be part of that.

**Rhonda Boyles**: That could be an inclusive process down the road getting the producers to the table.

**Joe Van Treeck**: Only from the standpoint of throwing out the lighting rod so it is identified in advance. There has to be an assumption on the basic value of the product going to be. You know, the Creamery Corporation might have political pressure to have a price of X but normally dairy or other buyers that could be out there aren't going to be held to that unless there is some regulation that says we are going to have a bench mark price for the basic commodity at the farm. That probably needs to be established too or at least that discussion need to go out because if we have a program that is offering $2.00 per hundred weight but the buyer automatically deducts $2.00 per hundred weight from his basic pay you haven't gained anything.

**Wes Eckert**: In the real world you would base that on what you can get out of it in the market place. It calculates back so you stay black and you say after I pay for all my expenses this is what I get from the store so this is what I can afford to pay you for the milk. You are subsidizing a lot right now.

**David Wight**: Well I thought where we wanted to get is we don't want the meat processing we don't want the creamery or anybody else subsidizing any other component here we want to know what it takes to make each increment of the business work and if it takes a subsidy it comes out of somebody else's pocket so that we are hiding a loss under the meat processing facility, or under the creamery of something else.

**Rhonda Boyles:** Then that takes us down to the statement that all subsidies should come from sources other than the creamery, meat & sausage and ARLF and elaborate on that the we would need to look at incremental costs in each category.

**Ken Sherwood**: Maybe I misunderstood what Joe is talking about is he is under competitive pressure to put milk in the stores and so he doesn't want to pay anymore than what he would land in this milk and so he is doing more than that now. He is indirectly subsidizing these guys and he is saying you may establish a $2.00 per hundred weight subsidy but if he wants to drop the price of milk to $18.00 per hundred weight they are making less with your subsidy then they are making now right?

**Joe Van Treeck**: It is kind of hard to put an arbitrary $2.00, the $2.00 as an arbitrary figure out there in the (indiscernible) of everything else is stat.

**Wes Eckert**: Well the way to do that is just say the farmer guaranteed through the State a minimum of $25.00 per hundred weight. That is what these guys asked for and that he can pay what he can afford to pay and the rest of it comes from the State. It may be $5.00 per hundred weight.

**Rhonda Boyles**: The $2.00 per hundred is what we are going now right Candy?

**Candy Easley**: Yes.

**Rhonda Boyles**: That goes away in April 2007.

**David Wight**: But is sound like the real answer is that there is that they are subsidized to a tune of about $5.00 per hundred weight. Because Joe is providing $3.00 or $3.50 to so there is about a $5.00 per hundred weight subsidy one way or another.

**Gail Phillips**: So maybe that could be a definitive statement. That we recommend the season exists of all Mat Maid subsidies to the producers and recommend that those subsidies be transferred to the State of Alaska.

**Chad Padgett**: Are you talking immediately.

**Gail Phillips**: Immediately ya.

**Chad Padgett**: That will kill it on our loans. In fact what I am saying is that if the legislation isn't implemented (indiscernible) to give to subsides those are loans.

**Rachael Petro**: I can't happen immediately because the legislature.

**Joe Van Treeck**: Now there is a price disparity there are two competitors on this room as well and there is a price disparity for that milk so I want to hopefully get away from having discussions that Mat Maid. Because Mat Maid isn't the only player that is there, so there is a disparity from what Mat Maid provides and what is being provided by the other provider of milk.

**Rhonda Boyles**: Joe how would you do that. Magic wand how would you do that?

**Joe Van Treeck**: Well you could go to the extreme and say just like if you were in the other monopoly where you have a limited market for the product somebody sets the benchmark price and base level price. I don't think the BAC lies to do that. If you look at the regulatory commission right, they are setting what the natural gas producers get, they are setting what ACS can charge for cell phone rates you got an arbitrary third party disassociated player that has looked at all the components that says here is what it is going to take for a processing plant in the State of Alaska to earn reasonable level of profit assuming they have certain efficiencies.

**Rhonda Boyles**: So turn it over to the regulatory commission of Alaska?

**Chad Padgett**: Maybe I should (indiscernible) of where you are going. We have another program called loan deficiency payments and we do this on basically feed (indiscernible) what we will do is set a benchmark price so just to make the numbers easy you are $100.00 a ton on you feed (indiscernible) we set that benchmark price, anytime that the commodity or the buyers are paying less than that benchmark price what we do and they are called loan deficiency payments although they are not necessarily on a loan. What we will do on a federal level is make up that difference based on a formula. We set that for each geographic area in the State. Typically that is on a county level is that what you are getting at?

**Joe Van Treeck**: Well then you could expand it a little further and say that a buyer for milk in the State of Alaska can pay 120% of Seattle or something that establishes the benchmark.

**David Wight**: What you do I think first and foremost the processors are in a market and whatever the market price is what they are going to have to live with? Then if that doesn't support the dairy side which we say we want to recommend to the State that they do so then something I don't know what it is but something like Chad describes that we said we determined that if it is less then $25.00 per hundred weight and if Joe's saying it is going to be up and down all the time well then that's what need to be provided as a loan deficiency payment equivalences to the producers so they can stay in business. It doesn't come out of his pocket or his pocket because if we do that then we already started artificially building their business again.

**Chad Padgett**: I have another idea for you the same thing for our federal milk program that is established on the Class one price of milk $16.94 anytime that the price goes below that and this is nationwide it is established nationwide so that it doesn't matter where you are at in time it is determined that our price nationwide is below that average we make up the difference we make the payment to all the milk producers in the country. So that is maybe instead of loan deficiency payment we establish that benchmark price and I think the determination would be as the State and Fed's who makes up the difference and that does give you what your talking about more of your kind of market.

**Joe Van Treeck**: Along with that there are two components with that right Chad? The loan pays them 40% and it has a cap on production. So if you are a huge huge producer and you are only going to get that deficiency payment on the overall production you it doesn't umbrella every pound of milk.

**Rhonda Boyles**: Okay, do we in this group number one have the ability and the expertise to write a statement that we can put in this report that we can all pretty much buy into that says there is some type of subsidy based on a formula? What you have just been discussing do you want to write a statement to that and can this group do it? Or do two or three of you want to sit down and hammer it out?

**Ginger Blaisdell**: In this report it is a recommendation to the Governor so some of it is factual here is where we are and some of it is just asking for we need this in order to proceed? Can't we just ask the Governor to make that a priority and determine that and maybe the incoming Governor would pull together some people and

**Rhonda Boyles**: Well Ginger okay Carol you are shaking your head.

**Carol Lewis**: I think this group should write it and I really think the expertise is here because essentially you're (indiscernible) with federal programs.

**David Wight**: It sounds like if you don't have something to start with I am not sure if (indiscernible).

**Mac Carter**: Not only that but if we.

**Rachael Petro**: We have to make this as easy as possible for the next administration to look at it and say wow they really did a lot of work, look at these recommendations they are tangible or at least they know where to start because I tell you what this is not going to be the priority of the next administration. Can anyone guess what it might be? Gas line I mean it's not going to change and so the goal of this is to what the Governor is going to call you all back and that might be a possibility you need some more work on these nice recommendations. The more tangible we can get, I mean that is really the goal, I mean if the Governor could of done it in the last four years I'm sure he would of but that never happened.

**Rhonda Boyles**: It certainly is the tool that I am looking for to take back and hammer home on the BAC with some expansion and rejuvenation there. Okay,

**Wes Eckert:** Going back to what Joe was saying. The simplest way to do this is simply could you (indiscernible) class one price plus freight is what the producer would get period. Anything above that they need to continue to exist is paid directly by the State bypassing the processors.

**Rhonda Boyles**: Candy is having a heart attack go for it.

**Candy Easley**: Well how much?

**Ken Sherwood**: We need to determine how much and when to do it.

**Candy Easley:** You are talking in per(indiscernible) that is going to be a budget constraint every single year and so I think it is a good idea what service are you doing to these processors and producers and the banker when I don't know every year if that subsidy is going to be there so how much?

**Wes Eckert**: The rest of the nation the other 48 states in the nation has a milk price that changes every single month and they hold the bankers and everybody else that supports that understands that.

**Candy Easley**: Except that is why we are loosing a lot of farms.

**Rex Shattuck**: If you consider the size of milking cows in Alaska is smaller than a lot of farms I think it is a different perspective from the legislator. I'm not a legislator and I'm not speaking for my boss in this particular case you can ask Gail. I bet your going to have a lot of fun to push that on an annual basis because we budget.

**David Wight**: It is already going on. The legislature just doesn't see it because it's over here in Joe's shop and other places that and it is a loss on the meat processing facility all the money is already in the system.

**Rhonda Boyles**: And David I think a legislator is going to say Joe's sending it out here as a subsidy but we aren't charging Joe rent we are the State of Alaska we are sending it this way as a subsidy.

**David Wight**: It is subsidized it just happens to not show up as a line item because of (indiscernible). The legislative will is going to say I'm not sure I am going to spend. I can get a number roughly in my head because he is putting out about $3.00 or $3.50 and I think there is $2.00 on the federal side that is if $5.50 and 8 million pounds of milk so but that is per hundred weight so it is about ½ million dollars per year some thing like that.

**Chad Padgett**: It could go up if you bring more people into production.

**David Wight**: The is only on that side there is another $200,000 that is being subsidized on the loss on the meat processing so it is somewhere between ½ million and 1 million dollars per year.

**Joe Van Treeck**: That is the reason why my number one statement up there is important I think is if you haven't explained the value how can you explain the subsidy? The cost benefit analysis strictly is what as a State what are we gaining by the commitment.

**Mac Carter**: $49 million dollars impact on the State per year.

**Wes Eckert**: Where did that number come from?

**Rhonda Boyles**: The was last brainstorming.

Joe we go back to your expectation right here, that you Mat Maid because you are a State entity you have to break even, you have to be profitable. So I am going to say as a legislator and as the Chair of the BAC. Joe how much rent are you paying to the State of Alaska for the use of that facility? You are going to tell me zero and I'm going to say no your going to have to pay me $4,000.00 per month now, so how do we determine which way you want to go? If we address one you will have to address the other.

**Joe Van Treeck**: Well I don't think it is quite that simple because we are also making improvements to the lease holder for the owner. The owner is not doing that any requirements to maintain the lease holder.

**Rhonda Boyles**: It is called a triple net lease.

**Joe Van Treeck**: So it is not simply that you are not writing a rent check and beyond that I agree that if your not picking up all the costs for the milk that is has to go back someplace else or having some other relationship that is established.

**Rhonda Boyles**: So do we want to go there right now?

**Gail Phillips**: Yes, I think it would be much fairer to go there to put actual costs into Joe, actual costs into the producers and deal with actual costs.

**Paul Huppert**: I think these figures should have been out in the open along time ago.

**Rhonda Boyles**: We are going to add one more day to our work load.

**Rachael Petro**: The election is on Tuesday, we this needs to be ready on Wednesday, I love to be the realistic person.

**Rhonda Boyles**: You started down this road just like you did at the annual meetings so bale me out. What do you want to do?

**Candy Easley**: Well if we do that Joe what happens to these other options that we have been discussing no production credits no price support are you saying that simple as deciding that factor in this State is going to appropriate a certain amount of money every year to pay that and all the other stuff is off the table is that what you are saying.

**Joe Van Treeck**: No actually what I said is we need to provide a value statement for what the State is getting in return for it's investment.

**David Wight**: I think the answer to that question was first you elevate it up to a level of here is the kind of money we are talking about now we want it to be delivered in such a way as it drives some outcomes is what Gail talked about in our measurements thing we are just not going to give it away and say okay next year come in and so the legislative process would work on incentives around productivity it would work on incentives around food value and acreage productivity on forage and things of that nature so you would expect for the money you are putting into it to start seeing a change.

**Rhonda Boyles**: Is that truly able to be applied? Can we actually do that?

**Gail Phillips**: The State is doing measurements, result based measurements in every other entity and agency in the State there is no reason the Department of Agriculture should be exempt from that.

**Rachael Petro**: It come in the form of ARLF because these two assets are held by ARFL so actually I don't want anyone to think the Division of not doing their M & M's but they are but it is just included in the ARLF piece as assets.

**Candy Easley**: There are others like the sales but it isn't specific to the dairies.

**Rachael Petro**: It is not specific to Mt. McKinley Meat or to Mat Maid that is for sure.

**Rhonda Boyles**: So my friend Joe do we write a statement.

**Candy Easley**: One thing I would point out to some degree Joe did try to implement something like that that would it wasn't a subsidy but tried to tie it to what the current rate was and over the years the producers just throw a fit. Now if the State is willing to subsidize it I'm going to assume the producers will be just fine with that. Personally I think it removes the incentive again. No is we can tie it somehow with other programs like production credits that promotes them to farm more efficiently then fine but throwing money at it is not going to fix this problem. Every year we will have this battle of appropriating money and defending (indiscernible).

**Ken Sherwood**: Well we are just making a recommendation and it seems like in the short-term all we want is (indiscernible) we should come up with a landed price, we should decide what is the outside price they are going to get paid but a duration of one or two years on this thing and say okay if these other things kick in we are going to change all this or re-evaluate whether this thing has any merit. You just basically your buying a short period of time. I mean that essentially then you take a look at this thing and say okay is there a magic product out there that we are going to get big bucks for? Wasted time or should it be a family of four cows selling milk to their neighbors, I think all you are really doing is setting a time frame to say we are going to be taking a look at it and prop some of these guys up and we aren't going to prop them all up according to Chad, a couple of them will be around next year so it is a time situation to value to whether there is a potential or not.

**Paul Huppert**: Basically they said this is a stop gap and the other thing is don't you think that the legislature is going to demand from the BAC every time they evaluate that appropriation how long is it going to do it, how long is it going to go. I think that will take place no matter what.

**Ken Sherwood**: In reality they are going to look at it every year anyway.

**Paul Huppert**: I think we have to like the stop gap somebody is going to have to come up with this production credit that is going to be something acceptable to make this think work.

**Rex Shattuck**: Does the production credit does what you were talking about establishing a base price in Seattle plus transportation that plus some measurers of quality not just quantity can you build those into a production credit?

**Joe Van Treeck**: Well the production credit would be the offset between whatever the offset is of Seattle plus freight is compared to whatever the cap that is on the top that says this is what we need to have to produce milk. You might get more of a credit if you get higher quality output but there will be some I guess 80% of whatever we are taking about here everybody should get on the producing side. It really isn't a process related thing as much as a taken the burden off the processor to try to keep the producers in business and puts it over someplace else that extra burden.

**Rhonda Boyles:** How do they do it in the real world? It is all market driven.

**Joe Van Treeck:** I hate to say this but in 2000 or 2001 Wisconsin was loosing 1,000 farmers per month. Which is why California has become number one dairy producing states in the nation now instead of the heartland?

**Chad Padgett**: Back to your question do you support it or don't you?

**Rhonda Boyles**: We keep coming back to that and I think that my sense is we support it for a period of time but we don't support it forever. Am I right?

**David Wight**: Rhonda I think one of our problems in answering that question is at least to a large extent I can't sit here and tell you at any level the current producers others and maybe a couple of them sitting here at the table are going to be able to make it on their own. So I guess my reaction is you do the bridge while we transform to something else you give them a time to introduce efficiencies and become more production and cost effective and then if they can't make it then what I would tell you that it is time for them to go away.

**Rhonda Boyles**: So by setting the time limit on production credits and all of this is basically saying that.

**Rex Shattuck**: So we said $2.00 because that is what where we are right now. Is there a reasonable number that we can come to on that part making the statement for the two or three years that we have that that is the amount?

**David Wight:** It is more like $5.00 to $7.00 when you collect the meat side and you collect his and $2.00 and somewhere between $5.00 or $7.00 is what is going on.

**Rhonda Boyles**: Which goes back to what Wes said this morning we put the pros and cons and how much is it going to cost.

**Rachael Petro**: Well to keep it moving forward and positive which is the direction obviously that our Alaska delegation would like us to be going we would not just not need to make the recommendations for the bridge but also the recommendations for what the State needs to be doing meanwhile to transform the industry if that is where it is going to do the studies, to do whatever we have to make those recommendations as well. I kind of see those as kind of the broader overview type of recommendations.

**Rhonda Boyles**: So, should our approach just give me a yes or no here. Should our approach be to address the subsidies for lack of a better word that the creameries are getting not rent, subsidies that the producers are getting from the creamery from Mt. McKinley everything collectively or do you want to do it and the meat processing. Do you want to do it separately? Or do you want to roll it all together and say if we fix this problem this is a domino affect which is the easiest to do in this report.

**Wes Eckert**: I think the meat plant is a separate issue; it should not be rolled in.

**David Wight**: I agree that that but I think there is a summary line that goes to the top that says here is what the total thing is costing and if you (indiscernible) it is so much in each one of these areas and that is the only way you get a realistic look at what you want to do and how much it will cost you.

**Rhonda Boyles**: The real gray area is what the subsidy to the producer is because in all of the testimony we don't ever know what their costs are.

**Wes Eckert**: They don't know.

**Carol Lewis**: They don't know.

**Gail Phillips**: And then on step farther can the dairy industry be sustained in the State of Alaska without subsidy?

**Rhonda Boyles**: No, and I asked Joe relative to the creamery what is it going to take to keep you alive for three years and you said ½ million per year.

**Joe Van Treeck:** I said about ½ million per year over three years. $100,000 to $150,000 just to deal with the near term issues for the safety and the security. There are things that we just don't know what the cost is.

**David Wight**: But there is a longer term thing when we get to the creamery that we will have to talk about.

**Chad Padgett**: Joe just a quick question on the price support what would be your comparison in bringing in Seattle + freight? Is that comparing the exact same milk or are there differences in that milk? That is something that always comes up (indiscernible).

**Joe Van Treeck:** That is going to be a challenge because we don't have the secondary product capability to compare a 3.5% butterfat milk when you can't support that much fat here in the market we don't have a conversion weight. The other thing I think is a problem is whose freight value are you going to measure? We are not the market setter for price we are the market seeker just like the producers because our volume isn't big enough so I think the freight factor needs to be an arbitrary number not necessarily what our costs to land milk is. The grocery stores aren't paying what we are to land milk. If you are looking at the competitive structure it has to be competitive all the way through. We are not a high volume shipper of goods so there is disparity in freight as well.

**Paul Huppert**: You know what Joe mentioned there is something that we are all plagued with in the market in Alaska. The honest application of freight (indiscernible) a problem. We just absolutely get the many.

**Rhonda Boyles**: So as I see it now this is a practical approach because I am trying to move this forward. Ken said we are buying some time in mind I think we are buying some time because there are some uncontrollable factors here that everybody will have to deal with. We may be back in this room a year from now minus two, three or four whatever producers and we can't solve that problem the dairy doesn't have the money to solve it and we probably won't get the State to give us enough money to solve it. What we can do is keep things stable for another 12 to 24 months; we can work in the big picture take another look at it in 12 to 24 months and make a decision. That means that we keep the creamery operating as it is operating and we make the statement that says nope Mat Maid can't afford to pay rent nor can Mat Maid afford to pay anymore than what it is paying to the producers per hundred weights. Do you want to take the approach to just keep it stable and deal with our crisis in 12 to 18 months and more or less do what our Congressional delegation representative asked us what to do and see if the State has the moxie to come up with some money?

**Joe Van Treeck**: How are we going to define the discussion Chad's been having because there is nothing discussed around this table today that is going to stop the inevitable activity in the next 4 months. Is that correct? What definition of crisis are we going to use because it will be a crisis for somebody. Even if the industry is not in crisis.

**Mac Carter**: Well putting that element in there is only gone to (indiscernible) we have this problem solved lets just not do anything it will solve itself and it will die.

**Chad Padgett**: That is the danger of talking about it openly like we have been we know this problem exists we know it is coming quick is there anything that we can do about it? All that is to raise the awareness that this is a huge problem right now we don't have a fix in place so if nothing does change we will not have the three producers.

**Rhonda Boyles**: In the meantime we have some producers that are doing okay.

**Chad Padgett**: Right.

**Rhonda Boyles**: Now we need to move forward with that.

**Wes Eckert**: Chad why are you waiting four months to foreclose. What don't you just do it?

**Chad Padgett**: Well there are time frames at (indiscernible) you have mediation it's time frames are already built into our system. We have actually put this off in some cases for years because five years ago we talked about a short-term long-term plan it is the same discussion we are having here today. We were asked to hold off though there was a long range plan we did now we are at the point where we have new legislation, improper payments act of 2002 is one of them, we have to meet that legislation now so we are at the end of the rope and have held it as long as we can. Now what happens is our formal timeframe when we start restructuring and we look at that and start looking at foreclosures any of our next servicing actions? It takes about one year to get there.

**Wes Eckert**: Have you triggered it at this point

**Chad Padgett**: Yes.

**Wes Eckert**: You have triggered it.

**Chad Padgett**: We had to. We are under a requirement nationally where we have to meeting the language and the improper payments act so we don't have a choice we have to do it and that means if somebody didn't dot and I right or cross a t on the application we will have to remedy that it goes that deep. We are forced into it and there is nothing we can do.

**Paul Huppert**: I think we just have to march on, that is a thing that will have to be addressed as time goes on. (Indiscernible) Whatever.

**Rhonda Boyles**: In the meantime we have some time to take it a longer term approach to the creamery but back to where we are at.

**Wes Eckert**: So your 20 thousand a pounds a year from now it nothing happens your 20 thousand pounds a day you are getting from the current local producers will go to what?

**Joe Van Treeck**: Well the two of those guys probably represent some to close of 35% of the volume.

**Rex Shattuck**: We were just talking about the producers in terms that we have to face recognition that some of them for whatever reason they could go bye bye. My question would be as far as Mat Maid goes is that Mat Maid is in the same position if we aren't subsidizing him at this particular time we may see them go bye bye too.

**Rhonda Boyles**: That is a possibility. There is also a possibility that that little bottling company could continue to import and provide jobs and make juice and make cottage cheese and deal with it's issues. By bringing everything from outside in. I am I right? It would probably be a little easier if you didn't have to pay higher local prices.

**Joe Van Treeck**: It all depends on how you are going to do the measure and it depends on what the price of milk is outside. Last year just on a straight differential basis they were less than $15, 00 differences in cost between imported milk and the milk bought locally because of the price of milk outside and the run up in freight costs.

**Gail Phillips**: Is there any problem in getting the milk outside to supplement if these producers are gone?

**Joe Van Treeck**: Producers in the Pacific Northwest only utilize only about a third of the production for bottling purposes the rest goes into manufacturing products. Now, if the market is strong you could still have a problem because there is shortages of milk in other parts of the country can be diverted to date we have not had a problem accessing milk it is the question how much can you afford to pay for it.

**Rhonda Boyles**: And that would be an opportunity to look at it to.

**Candy Easley**: I want to point out just because a farm closes it doesn't mean those cows won't be milking somewhere else. Clearly those two dairies closing down would have an impact but Don will tell you every time those come available particularly with the border closure he buys and few the others buy a few so it isn't going to be totally that that shuts down stopping that production.

**Rhonda Boyles**: As long as nobody on this committee has to milk a few.

**Candy Easley**: I also wanted to point out Joe doesn't want to take credit for this idea on the subsidy thing you have to be really careful on how it impacts the other processors because you don't want to making such a sweet deal that the Delta Farm is trucking it down to sale to Mat Maid so it has to be across the board because he has a different market than we do you have to remember it is not just Mat Maid processors.

**Paul Huppert**: You know madam Chair when I was chairman of the dairy board your (indiscernible) statewide just not Mat Maid and you have to recognize that.

**Rhonda Boyles**: Okay, help me understand what we do with this recent dilemma that my friend just surfaced. Do we deal with it collectively like David said we do a statement that says this is what is costing every portion of this four legged stool here is the total and go through (indiscernible) go through it that how you want to deal with it?

So what we are going to need from you Joe and you Don is the price you are paying to the producer how much of that is in appropriately high subsidy.

**Don Lintelman**: Well we are paying $.50 over $19.00 a hundred weight on 3.5 milk what we are using up there but down here I think we are paying $22.00 something and we have to come down to get it so that is marginal for us right there but what were but if we had more volume to go through the plant we could justify those costs but we don't have the volume. Also labor labor is another thing we don't have a lot of and we can't just pick and choose whoever we want so it makes it pretty rough.

**Joe Van Treeck**: If I might and in chatting with Wes on what goes on outside I would say the cooperative world outside because most milk to bought through a coop today in the United States but there is other dynamics because you have reverse activity as well for example there is offsets for marketing that coops collect, there is offsets for the administration, collaboratory analysis what do I use what is our benchmark to establish the difference between what is a subsidy and what is not because its just not the fact that we got up to a $1.00 bonus and you might get $.15 outside and but we don't make assessments either. We don't collect money from the producers to help offset our administrative costs.

**Candy Easley**: Can you just simply say what X amount monies are you handing to them that they can spend not expenses. If you consider hauling an expense then that is part of doing business. If hauling is really their expense and you are giving them cash then that is a subsidy.

**Wes Eckert**: And that is the case.

**Candy Easley:** Yup. I don't think you should get into your expenses. Cash in their pocket that you are giving them above the market price of the milk.

**Chad Padgett**: The same.

**Rhonda Boyles**: You need to give us that number. You have lunch and come back to us with that number.

**Candy Easley**: We are not including federal subsidies are we? We have no control over the federal subsidies we have none.

**David Wight**: Only to the extend that we need to understand the federal subsidies that they are different from the lower 48 so that when we start working on a comparator we no we are equal or lower or higher. Right.

**Paul Huppert**: Well we are including federal subsidies up to what gets to that $25.00 benchmark.

**Candy Easley**: If the feds are paying we don't pay, but we need to know.

**Rhonda Boyles**: Chad.

**Chad Padgett**: The only thing they are getting as subsidies is loan program which varies by loans and if the only one.

**Rhonda Boyles**: We need to put that in there. Okay, let's do one more at least let's wrap it up before we break for lunch. We all decided that the subsidy that's a broad term should come from sources other than the Creamery but what we are saying now it that we will define it, it is now being paid by these areas and this State of where we have to offset that right?

**David Wight**: Rhonda I thought about that for a little bit and do we really care where the subsidy comes from so long it is transparent and there is the decision made as that is the way it is going to operate. If they want to support dairies and to do that they want to do that the Creamery provide the cost structure for them through whatever structure, do we care, we don't do we. We just don't want the creamery as a business entity doing it on its own.

**Gail Phillips:** In other words the State can give the subsidy directly to the creamery rather than directly to the producers.

**David Wight**: We don't care what form it takes or whether it is a creamery or whether it is meat processing or something else we just (indiscernible).

**Don Lintelman**: What about the farms that do come up in production or go down in production what do we do we send those credits in like we do with the Fed's. We take our like for us for the federal government we have to take the processors into the FSA we take the milk production part of it the money goes to them people not through us and that could be doing with the State maybe.

**Chad Padgett**: What he is saying is we get the production records from each of the processors and then we make the payment directly to the producer.

**Candy Easley**: Which is what we do with Mat maid and Northern Lights dairy twice a month gives us the production records $2.00 per hundred weight we send the check directly to the producer.

**Rhonda Boyles**: Help me out here we did make a statement that we wanted to continue to after that which is going to be about ½ million per year. Okay, Carol is going to write the overview statement. Are we going to write a statement on expectation we have more or less beat that up by saying we are going to recognize subsidies right.

**Rachael Petro**: I think it needs to be more than that right I think maybe (indiscernible) correct me if I am wrong but your expectation of each unit is that it is okay that we definitely need to identify the subsidy but we need to identify why we are subsidizing it and what t he cost benefit analysis of I mean it doesn't need to be super technical but it is part of the stool holding up the seat holding up the dairy industry but it just has to be articulated and granted these expectations could be changed by the next administration or even the legislature and that is okay, but we have to base our recommendations on something and that is (indiscernible) in those expectations for those two in particular.

**Joe Van Treeck**: Let me expand them a little bit. The first thing is that a person could say besides the (indiscernible) cash subsidy the State is also got 6 million dollars or better assets deployed that is also subsidized in hard assets physical buildings, equipment that stuff that they carry on ARLF chart of accounts with Mt. McKinley Meat and Mat Maid. What I was talking about about expectations in the context that is on the board was the profit driven motive or the not profit driven motive is there a different motive for what we are expecting those assets to accomplish that was what I was driving more because you keep hammering this you put a heck of a burden on the operators when they think that where we are trying to get to is here but everybody's expectations were over there. I think we need to define what is the expectation what the output is if you expect these things to generate. Is it profit, is it preservation of capital it's like putting your money in the stock market what is your investment objective with the asset that is what I was talking about there.

**Candy Easley**: Couldn't it be expectations of the recommendations. Why does it have to specific to those assets? I think it is bigger than that.

**Don Lintelman**: It is a turn over like we buy tires here for our trucks. I don't know how many thousand of dollars we spend on that. We bought locally and lot of our stuff we can get here locally we do. We talked about this granola we would buy it here (indiscernible) with our soy bean if we could get I here, but we need to be able to get it here. We are just a small company our self it is utilizing whatever we can in the State. If we are not here we are not utilizing it. You take the pipeline and put it through how many things did they utilize in the State they brought everything in and everything out. What are we going to accomplish nothing?

**Paul Huppert**: You know Matanuska Maid there is 50 jobs and that is the whole community.

**Rhonda Boyles:** Along with this section is statement of challenges and you wanted to review those of what we just talked about Rachael.

**Rachael Petro**: Sure, the challenges high debit users in the Pt. MacKenzie area, lack on infrastructure as support and most of all lack of commitment from the State of Alaska specifically in the Department of Commerce and Economic Development, Department of Natural Resources and the Alaska Legislature. Canadian border closure to cows and breeding issues, small market for cull cows.

**Rhonda Boyles**: I would accept a more sophisticated statement of any one or those statements of challenges but I think that they need to be pointed out we spent time talking about breeding issues and cull cows.

**Ginger Blaisdell**: (Indiscernible) the Canadian border closure on cows. I know that Senator Green had made sure there was a $500,000 appropriation made.

**Rachael Petro**: That is the $2.00 per hundred weights.

**Ginger Blaisdell**: Not $1.00 of that appropriation has been spent I checked up on it last year. Not $1.00 that appropriation is sitting in DNR somewhere.

**Rachael Petro**: My understanding is that $500,000 was for border closure was re-appropriated with Senator Green's help and Representative Neuman's help and used to fund the $2.00 support rate. If there was another because it wasn't it in our budget request I'm pretty sure.

**Ginger Blaisdell**: I know there was an issue with that.

**Rhonda Boyles**: Wes had concerns over numbers. Wes is there anything here we need to put into this area that is more (indiscernible) as far as numbers. I think it would interesting to talk about how many dairy producing cows we had 15 years ago, 5 years ago, 10 years ago and today. Should we make that statement in this report? It will show that this is what is going on.

**Wes Eckert**: You can re-grind this to death. The trouble I have it all the money that has been spent over the last 20 years are we going to pour more good into bad and what are the results going to be. In five years from now are the results going to be the same as they are now if not worse. I don't see it; somebody is going to ask that question.

**Rhonda Boyles**: Well that has got to be a legislative decision.

**Gail Phillips:** Those questions have been asked repeatedly over the last 15 years that I was in the legislature and they were never answered and more money was always dumped in.

**Rhonda Boyles**: Somehow now this report is going to limit that to a three to five year plan if not sooner. I think we are going to be all standing up in 12 to 18 months going what do we have.

**Wes Eckert**: Well I still will say what I said in the opening. If you don't take the lid off all of these issues and explain what is going on. I guarantee the average legislator and the average person in Alaska do not understand what is going on. If this committee doesn't take the lid off and say this what the situation is I think we are negligent frankly. Good or bad and say okay this is where we are at and if we want to (indiscernible) this is the price. Until we do that I think we are spinning our wheels.

**Gail Phillips**: That should be in our overview statement.

**Rhonda Boyles**: Or in the summary statement.

**Rachael Petro**: The power of this committee is that in that overview statement you are making a factual report, you are saying that this committee has done the work of asking ourselves the question saying we have not come up with a solution for it but we seems to me that we agree that even though we are spectacle and throw some more money at it while the legislature the leaders of the State put another plan together. They just three to five years will have a completely new legislature.

**Rhonda Boyles**: I understand there is a fine line here between (indiscernible) and keeping congressional people happy and whatever and not upsetting the whole apple cart because it probably will be upset with or without us anyway. In saying let's look at this very seriously over the next 12 months and have some measurements, accountability to this report and I don't have a problem doing that as the Chair of the BAC but I do have a problem as the Chair of the BAC delivering a report to the next Governor that says we are going to loose these producers next summer, we don't have any dairy cows, the creamery is loosing money and does anybody here want to take that report forward?

**Rex Shattuck**: Something I have trouble with every time it is said. That this is a transition report. I have heard that said and I think honestly when I hear that it looses some creditability academically. You know what I mean. We get icier reports frequently that are looked at reviewed, discussed, brought in as testimony and I would suspect that the object of this committee is to produce a report that might not be totally academic, may not is not totally political that can be used and referred to and I ask that question because the transition from that is this a report that members of this committee are going to sign?

**Rhonda Boyles**: I think so. I don't intend to just give it to the next transition team and let them bury it in archives, this is going back to the BAC and I'm going to say here is our program of work on dairy, now what are we going to do about Paul's carrots. We have the whole agricultural issue, I am going to use this to try to empower and broaden the BAC and we haven't even gotten to the creamery but I think one statement we need to make (indiscernible) right now today is that we have to take a look at where we are going with the creamery and to do that the creamery corporation board of Directors must mirror the issues that you are going to have to evaluate in the next 12 months and that would be privatization, possible re-location, size revaluation, logistics study okay. By just dumping the BAC over into the creamery we have not got the skill level that we need to address that six million dollar asset for the State that is one big position that has to be said Joe. Are you can't move off (indiscernible) that is a practical statement. So have some lunch and when we come back we will look at some creamery issues and Mt. McKinley Meat and Sausage.

**Rhonda Boyles**: Okay one hour for lunch.

END OF TAPE 2

**Rachael Petro:** .....saying we don't – yeah, we haven't come up with a solution for it, but we – it seems to me we agree that, you know, even though we're skeptical, but, you know, throw some more money at it while we have a chance to – or while the legislature, you know, the leaders of the state have a chance to put some – you know, another plan together. I – they just – they're – three to five years, you'll have a completely new legislature.

**Mac Carter:** They were skeptical from the very beginning back in 1981.

**Rhonda Boyles:** I understand there's a fine line here between soft-shoeing it and keeping congressional people happy or whatever and not upsetting the whole apple cart because it's probably going to be upset with or without us anyway. And saying let's look at this very seriously over the next 12 months and have some measurements on – some accountability to this report. And I don't have a problem doing that as the chair of the BAC. But I do have a problem as the chair of the BAC delivering a report to the next governor that says we're going to lose these producers next summer. We don't have any dairy cows. The creamery is losing money. Anybody want to take that report forward?

**Mark Neuman:** You know, something I – something I – trouble with every time it's said, is this is a transition report. I've heard that said. And I think honestly when I hear that, it loses it some credibility academically.

**Rhonda Boyles:** Okay.

**Mark Neuman:** You know what I mean? I mean we get – in the legislature we get (indiscernible) reports frequently that are looked at, reviewed, discussed, brought in as testimony. And I would suspect that the object of this committee is to produce a report that may not be totally academic, may not be – is not totally political that can be used in and referred to. And I asked that question because the transition from that is a – is this a report that this – members of this committee are going to sign?

**Rhonda Boyles:** I think so.

**Mark Neuman:** Okay.

**Rhonda Boyles:** And I don't intend to just give it to the next transition team and let them bury it in archives. This is going back to the BAC and I'm going to say here's your program of work on dairy. Now, what are we going to do about Paul's carrots because we have the whole agriculture issue. And I'm going to use this to empower the – try to empower and broaden the BAC. And we haven't even got to the creamery, but I think one statement that we need to make emphatically right now today is that we have to take a look at where we're going with the creamery. And to do that the Creamery Corporation board of directors must mirror the issues that you are going to have to evaluate in the next 12 months. And that would be privatization, possible relocation, size re-evaluation or logistics study. Okay. And by just dumping the BAC over into the creamery, we have not got the skill level that we need to address that $6,000,000.00 asset for the state. That's what – one big position that has to be said, Joe, or you can't move off dead center. That's a practical statement. So have some lunch and when we come back we'll look at some creamery issues and we'll look at Mt. McKinley Meat & Sausage.

**Rachael Petro:** Candy, I get your statement and (indiscernible) back.

**Gail Phillips:** Before we do under the challenges, on that major challenges.

**Rachael Petro:** On producers?

**Gail Phillips:** Uh-huh (affirmative).

**Rachael Petro:** Uh-huh (affirmative).

**Gail Phillips:** I think we need to add DNR in the – also. Not just (indiscernible).

**Rachael Petro:** It's already in there. I read it to you.

**Gail Phillips:** Okay. It wasn't in ours.

**Rachael Petro:** Right, I know. I re-wrote all these while you guys were working.

**Rhonda Boyles:** Okay. One hour for lunch.

**Rachael Petro:** I added the legislature as well.

**Gail Phillips:** Oh, good. (Indiscernible) the legislature.

(Off record)

**Rhonda Boyles:** Guys and girls, Gail's coming and Rachael's gone up to get her. Okay, here's what I need – we need to accomplish this afternoon by 4:30. We have 2-1/2 hours. We need to make some statements about the creamery. We've gone over it and over it and over it. And I kind of did the summary to get us started again. Joe, you know more about the creamery than any of us. Under – take a look at what I've done there and let's – we'll be prepared to talk about it.

But I want to spend about 40 minutes, no more than 40 minutes on the creamery. And we spent 20, 30 minutes on Matanuska – or on Mt. McKinley Meat & Sausage. We're going to do it because we got to get to some substance.

All of us in this room know that probably the best and logistical, practical thing to do is to say we've dumped millions of dollars into this and we're going to be – putting – asking to put more money in. And it hasn't been successful so far, why are we – how are going to justify more money? That's bothering me as much as it is a lot of us around the room. But you just cannot shut things down tomorrow morning.

This report going to the legislature that says sell creamery, sell Mat Maid, let the producers figure out where they're going to go, that's not going to politically fly. So we have to do what we can, understanding the politics. And I just said, if we did – if we took everything away, Don, you'd go away. You'd be up there.

**Don Lintelman:** Yeah, probably would.

**Rhonda Boyles:** Yeah, you'd be up there all by yourself doing what you have to do. The producers would go, it's not an option. We have to continue to plug through this. But what we do is we also can't go to the legislature and let me tell you, the bill's going to be $1,000,000.00. By the time we get through documenting everything, we're going to be able to be proud to say we need $1,000,000.00 and we're already spending this much in subsidy and it can't continue.

So in order to do that, I think we have to be very practical. That's why I want to go through the creamery in a limited amount of time and we're going to go through the Mt. McKinley Meat & Sausage in a limited amount of time. And then I think we need to make some statements that say we can immediately do the following. And we come up with four or five points that it's our onus, it's up to us to say we are going to do this and it's going to make a difference. And we know we can make a difference, however be it a short, baby step. But it's got to be something that we can sell our little concept to.

So creamery, Joe, I kind of made some statements taking from our brainstorming. This the third day now. We have lots of time to go over everything. The challenges, Homeland Security and food safety, would you agree with that?

**Joe Van Treeck:** Yes, I do.

**Rhonda Boyles:** Decrease in local supply.

**Joe Van Treeck:** Yep.

**Rhonda Boyles:** And we can justify that. You can give me numbers that show me in five year increments how it's decreased, right?

**Joe Van Treeck:** Yes.

**Rhonda Boyles:** No ability to control the price on the shelf. It's established by the storefront.

**Joe Van Treeck:** That's correct.

**Wes Eckert:** But that's true of any business.

**Rhonda Boyles:** I want to bring around the WIC situation. That's what I wanted to use an example of. That's why I said that. Do you want to just ignore that?

**Mark Neuman:** No. No ability to control price on shelf in the local grocery stores. But do we have an ability to have any say on price to other state agencies, that we're trying to sell the state agency or federal agency?

**Rhonda Boyles:** I think we talked about that this morning when we put a statement under the producers that we need to re – did we use that contractual statement yet, Rachael?

**Rachael Petro:** Yes.

**Rhonda Boyles:** That we need to evaluate.....

**Rachael Petro:** Oh, you know, I've looked at this stuff and – so much. It's in there somewhere, but.....

**Rhonda Boyles:** Yep. (Indiscernible) go back and find that.

**Rachael Petro:** I'll open up these other documents.

**Rhonda Boyles:** Okay. We do have an older equipment, physical plant, which will require – there's your number, Joe, you gave me – one to 1-1/2 million over the next three years.

**Joe Van Treeck:** I changed that will to could. In other words, we don't – I couldn't come up and give you a list of things that were going to cost a million to a million and a half dollars.

**Rhonda Boyles:** Could.

**Joe Van Treeck:** I just changed will to could.

**Rhonda Boyles:** Got it. Greg Galik told us total milk sales nationally are decreasing and flat.

**Wes Eckert:** What does that have anything to do with it?

**Rhonda Boyles:** Good point. Take it out.

**Wes Eckert:** I would ask – that's one question that people are going to ask. What does that have to do with this, if I wasn't part of the committee?

**David Wight:** It doesn't belong there, but it's – has part to do with not being able to establish prices. It's a commodity and the market's getting smaller so it's a little bit hard to push prices up. It's in support of that statement, but it doesn't need to be there.

**Carol Lewis:** Well, another thing you could say to support the statement is that the consumption patterns of the residents of the State of Alaska follow those of the US, because it's an (indiscernible) state. And most likely the milk sales would also follow. And if they're decreasing and flat in the US, then you would expect them to be decreasing and flat in (indiscernible).

**Rhonda Boyles:** Greg's comment was that they're flat, but we're still holding 40 percent – Mat Maid still holds 40 percent of the market share.

**Candy Easley:** But didn't he also say that's prompting these other products, yogurt.....

**Rhonda Boyles:** And I've got that under opportunities. So we can combine that – just take that out.

**Carol Lewis:** Or you could leave it too.

**Rhonda Boyles:** Yeah, right.

**Rachael Petro:** Which one? The milk sales.....

**Rhonda Boyles:** Milk sales nationally are decreasing and flat. Or we can go back and address it under opportunity.

**Rachael Petro:** So do you want it deleted?

**Rhonda Boyles:** For right now.

**Rachael Petro:** I'll just (indiscernible).

**Rhonda Boyles:** Okay. The next two statements, cannot afford to increase the price to producers without subsidy. We've already gone over that before. I was just trying to reinforce the fact that the creamery can't subsidize the producers and continue to exist.

**Paul Huppert:** You know, one of the things I think you have to point out here too is the cost of marketing for Matanuska Maid is almost double for what it is for competing products primarily because they will not stock those shelves. And they limit the time of delivery so consequently it took more personnel to deliver it and they have to – Matanuska Maid had to hire people to go around to the stores and do the stocking. And that increased that cost a lot.

**Rhonda Boyles:** So we can add a statement of that effect. Joe, do you want to articulate it? Labor costs high.

**Joe Van Treeck:** I guess I'd go – kind of go back to the way Wes handled the other one, is I don't know what that – I mean, we're talking about subsidy to the producer and I guess it's – the way you're talking about it is that it's a way to support the reason why we can't. Is that – in other words, I don't know if I – really fits in the discussion that you're trying to have.

**Mark Neuman:** Or should we try and frame the discussion – because the producers are a part of Mat Maid that are producing right now locally about 40 percent of what Mat Maid produces. Which is not apples for apples compared to the milk that they're getting from Outside, because the butterfat is lower from Outside than what they're getting up here. It's more higher quality milk. But also, you know, if we look at a million to a million and a half over the next three years -- we just talked about a million to a million and a half. Now you just added a half a million dollars. That maybe – there's that half a million dollars on that pass-through subsidy that goes into the $2.00 per hundred weight. You know, do we save a million to Mat Maid to have as a pass-through subsidy? Do you tie the two together, or do you say we're going to give a million to a million and a half to Mat Maid and then classify the producers over there as a different entity? But I think they're combined.

**Rhonda Boyles:** Well, yeah, this morning we decided to kind of classify them, Mark, as a separate and then combine the total amount. In other words, we have to show that everyone has to be able to stand on their own. Mt. McKinley Meat & Sausage, the creamery, the producers, they all have to be able to somehow stand on their own, yet they're interdependent. So we want to separate it out, each individual, what we're subsidizing each individual entity and then do an cumulative total. Is that – did I misinterpret what we did today, earlier today? So I'm catching you up, sir.

**Mark Neuman:** Thank you.

**Rhonda Boyles:** Okay. Okay. I don't have a – I have no pride of authorship here. And we've already talked about communication with existing producers is a difficult issue. So we need to take that out. We've already talked about some collaboration, right?

**Wes Eckert:** Yeah, I think that's a negative statement that won't get you anywhere.

**Rhonda Boyles:** Yep. That's right. I was – after two hours on a Sunday morning. Okay. Current opportunities? Did I miss something there? Greg talked about value added product and lines. That's what's making money, that's what Joe's doing. Statement about the market share at 40 percent due to excellence and quality, diversification, emotional commitment by baby boomers raised in Alaska. Is that true?

**Unidentified Speaker:** Uh-huh (affirmative).

**Unidentified Speaker:** Yep.

**Rhonda Boyles:** Okay. We are co-dependent, interdependent with Northern Lights. So like I said.....

**Wes Eckert:** Well, I think you need to clarify that previous statement. Joe has clarified it as being Southcentral.

**Rhonda Boyles:** Okay.

**Wes Eckert:** I mean, you can't – you know, he indicated that you can't declare the whole State of Alaska, Juneau, Ketchikan, Sitka, Nome, Barrow as far as his market share.

**Joe Van Treeck:** Right. So Southcentral would go in front of Alaska and the last word there (indiscernible).

**Rhonda Boyles:** Okay. Got it. The next statement, I think we – is that okay to leave in there or is that – should we make it a little more general?

**Wes Eckert:** Which statement is that, the third.....

**Rhonda Boyles:** Continue to balance milk between Northern Lights Dairy in Delta allowing the industry to survive and grow in the Interior. Is that what we're doing, Don?

**Don Lintelman:** Yeah, it's what we're doing.

**Rhonda Boyles:** I mean, you buy from Joe.

**Don Lintelman:** Yep.

**Rhonda Boyles:** To subsidize what you need, right?

**Don Lintelman:** Yep. Yep.

**Rachael Petro:** But if we hadn't been part of this whole discussion, would we understand – I mean, when we read this one sentence, would we understand that?

**Rhonda Boyles:** No, we need to probably explain it a little bit more.

**David Wight:** Well, I don't think.....

**Rachael Petro:** Because when you're saying continue to balance milk demand, well we can't – we don't control demand. I mean, we can.....

**David Wight:** You just provide supply. You know, if Northern Lights needs it – I'm not sure if Don is interested in exposing that necessarily.

**Don Lintelman:** How many – how much we get?

**David Wight:** Yeah.

**Don Lintelman:** Yeah, it depends on the demand. But sometimes we do two or sometimes one tanker a week.

**Rhonda Boyles:** We need to write a statement about that.

**Don Lintelman:** We did five tankers this last month. This month here, October.

**David Wight:** Of locally produced milk.

**Don Lintelman:** At 3,500 gallons a time. If we can figure that up.

**Gail Phillips:** How about just take out all that continue to balance milk demand between and just put supply?

**Rachael Petro:** That's what I just did.

**Rhonda Boyles:** Continue to balance milk supply between.....

**Gail Phillips:** No, just take that out.

**Paul Huppert:** Take it out.

**Rhonda Boyles:** And just say.....

**Gail Phillips:** Just supply Northern Lights Dairy in Delta.

**Mark Neuman:** Could we add in there with locally produced milk?

**Don Lintelman:** Yeah, I think we should.

**Rhonda Boyles:** Sure. I'm looking at you because do you always get locally produced milk when you get from Joe?

**Don Lintelman:** Yes, always.

**Joe Van Treeck:** Until the day we don't have any to give him.

**Rhonda Boyles:** Right. We're not going to talk about that until we get to the end. Yep.

**David Wight:** So why do you write that in there?

**Rhonda Boyles:** Because it's a co-dependency.

**David Wight:** No, but I meant the locally produced milk. That's what he does. That's what he'll do as long as he's got it.

**Mark Neuman:** Because I feel that it gives more reason to help support our local producers. I mean, our local producers are sending the milk up to Northern Lights. When he doesn't have enough supply, that's where they get their milk from. And that's the only – because he advertises made in Alaska milk.

**Rhonda Boyles:** Everybody okay with this now? Now, review the composition of the board of directors to include representation of goals for the entire industry. And I think we need to put present industry.

**Wes Eckert:** Which board of directors?

**Rhonda Boyles:** Creamery Corporation.

**Mark Neuman:** I have a question about that. And this is a question I've asked Rachael and some others. It's my understanding that there's five members on the executive board of Mat Maid. Those five members also make up five of the seven members of the creamery board.

**Rhonda Boyles:** No. Of the commission, the Board of Agriculture commission.

**Mark Neuman:** The creamery board – there's a creamery board, the executive board and the BAC.

**Rhonda Boyles:** Well, the executive board is – no.

**Joe Van Treeck:** It's not an executive board. It's an executive committee.

**Rhonda Boyles:** No. It's an executive committee with the board of directors of the Creamery Corporation.

**Mark Neuman:** So the executive committee of Mat Maid is five of the seven members of the creamery board?

**Rhonda Boyles:** No.

**Joe Van Treeck:** Let's start over. We've got the Board of Agriculture. From the Board of Agriculture at the annual meeting this year, four of the Board of Agriculture representatives were appointed to the Creamery Corporation board of directors. Its total is seven. So there's three that aren't. Of that seven, there was an election held and the chairman and actually the vice chairman both are Board of Agriculture dual members. The third person on the executive committee is David Wight, who is outside the – you know, he doesn't have any other interest in the Board of Agriculture through his position on the creamery board. And of the seven, there's also one member that's a dairy farmer.

So the Creamery Corporation is seven people. Five are from – four are from the BAC; three are not. And the two executive officers are from the BAC by election. It's just by election. Does that make sense? The executive committee are the officers. The chairman, the vice chairman and the finance representative, David Wight.

**Mark Neuman:** Does Mat Maid have an executive board?

**Joe Van Treeck:** No, it has a board. It has an executive committee. Executive committee. Uh-huh (affirmative). Like you'd have an operations committee, or you'd have a finance committee.

**Mark Neuman:** Are members of that executive committee part of the Creamery Board also?

**Joe Van Treeck:** They are the – yeah, they're from the creamery board. There's seven people total. They have dual roles and within that seven people, there's three that have dual roles.

**Mark Neuman:** That's a question that I have. How can we – you know, and I think there may be even a legal question on this. I know I've talked to Dave Marquez if there was a question. Is if we've got members of the executive board or board of directors of Mat Maid, who are also members of the creamery board, who in my view, would provide oversight over Mat Maid, it's kind of – they're all the same people. How can you provide oversight if they're the same people? But you got same members on the BAC. And it's my understanding in 2002 under Rob Wells' direction, the BAC was removed from oversight over the creamery board. Is that true?

**Joe Van Treeck:** That's not true. Because in 2002 there were only two people from the BAC that were on the creamery board and those two people were on the creamery board until they were dismissed by the BAC in 2004.

**Mark Neuman:** So the BAC has oversight over the creamery board?

**Joe Van Treeck:** As the shareholder, because they're the ones that we report to at the annual meeting.

**Ed Fogels:** So they appoint the creamery board, right? The Board of Ag appoints all seven members of the creamery board.

**Joe Van Treeck:** The creamery board. And then it votes its own executive committee from its membership.

**Mark Neuman:** Well, I think just review the composition of all those boards to make sure that we have proper oversight, that they should be different people looking at these, so that you have different eyes looking at different situations. I think that's the whole idea of how this works. So I think this – it's a very good question that we should review the composition of the BAC, the board of directors and executive board to make sure that we have proper oversight.

**Rhonda Boyles:** Okay, Joe, how many of us are on – this is the BAC, right there.

**Joe Van Treeck:** And so then go to the next column and put CC. Okay. And.....

**Rhonda Boyles:** Me.

**Joe Van Treeck:** Yeah. And Mac.

**Rhonda Boyles:** Mac. Ed.

**Joe Van Treeck:** And Ed.

**Rhonda Boyles:** Carrol.

**Joe Van Treeck:** And Carrol. And.....

**Rhonda Boyles:** And Vicky Trytten.

**Joe Van Treeck:** Vicky Trytten and David Wight. And.....

**Rhonda Boyles:** Common players.

**Joe Van Treeck:** Oh, Ron Long.

**Rhonda Boyles:** And Ron Long.

**Joe Van Treeck:** And then if you circle you, and Mac and David.

**Rhonda Boyles:** Uh-huh (affirmative). That's the executive committee.

**Joe Van Treeck:** That's the executive committee.

**David Wight:** Then you need a description of what the executive committee does.

**Mark Neuman:** The executive committee directs Joe on how to run the operation of Mat Maid.

**Joe Van Treeck:** The executive committee really becomes the conduit for me to have discussion with – in between the board meetings.

**David Wight:** But the executive committee does not make board decisions.

**Ed Fogels:** It's the creamery board that actually directs (indiscernible).

**David Wight:** So it's not a surrogate for the creamery board. And anything that is required board action goes to the creamery board, not to the executive committee.

**Rhonda Boyles:** It's very, very hard when you're sitting on both.

**Mark Neuman:** Or all three.

**Rhonda Boyles:** Right. It's very hard to keep the right hat on.

**Paul Huppert:** My problem with that make up – and of course, I sit on that board. But is the fact that there is a majority from the BAC on the Creamery Corporation board. You know, does that abide by all the rules and regulations in the state? And that really bothers me. It actually, you are holding a BAC meeting basically when you have a majority.

**Rhonda Boyles:** Which brings in a whole different – anytime there's more than there people, you have to publicly announce, advertise. It brings on a whole different dynamic so the private corporation that's supposed to be run for profit actually being public – a public entity because the main shareholder is a public entity. And it's been extremely compromising.

**Paul Huppert:** Yeah, I don't think there should be four members.

**Rhonda Boyles:** But here's where we need to go. If you finish going down through the statements, the second one is a warm, fuzzy statement for Joe so he still likes me because I yell at him all the time. We can leave that in there. I think that's fine unless somebody wants to take it out or you have any issues with it.

**Rachael Petro:** Which one?

**Rhonda Boyles:** The one that says Matanuska Maid Creamery has done an exemplary job, blah, blah, blah. Then the second paragraph, to build a new creamery would cost up to 40,000,000. Could cost up to 40,000,000. It would have to be relocated to a new and larger lot for the following reasons, right? An investment of one to 1-1/2 million over the next three years will be necessary to continue to operate the existing facility and make some modifications. There is no alternative at this immediate time to purchase the locally produced product and keep our dairy industry alive.

**Wes Eckert:** What does that mean?

**Rhonda Boyles:** That means that I guess the alternative would be Northern Lights so that's not a true statement. You could truck the milk to Delta. So we can take that last statement right out of there.

**Don Lintelman:** Well, we couldn't use all the milk.

**Joe Van Treeck:** Yeah, I was just going to say the dynamic.....

**Don Lintelman:** The (indiscernible) there.

**Joe Van Treeck:** So I think you could still put a clarifier in there that said that if the creamery wasn't around in Anchorage there would be more supply than demand through the markets that will be left to sell through.

**David Wight:** If you close the doors on the creamery, 90 percent of the market for local milk goes away.

**Rachael Petro:** Wait. What did you just say?

**Rhonda Boyles:** The last sentence, replacing the last sentence.

**Rachael Petro:** I know. I was working on the sentence before that. Can you repeat it?

**David Wight:** We need to get to the exact thing, but you take all the milk except for what the small part that you sell to Don. And other than that, is there anybody else here that will buy the local milk? That would be the question. And that's what this statement is attempting to get it is that if you close the creamery, basically, the market for locally produced milk, except for Don's milk in the small amount that he buys, goes away. I think that's what I understand in listening to it. And that's where, Rachael, I said a number, but I don't know what it is, but it's a large percentage, you know, of 80, 90 or 95 percent of the market for local milk goes away other than what Don already markets and what little we sell to him. Is that correct?

**Wes Eckert:** Yeah, I understand where you're coming from, David. But we have never said that Mat Maid is closing the doors necessarily. We've never come at it from this direction. You – in a previous paragraph you say, although Mat Maid's label, identity and loyalty as well as value are at all time high. Maybe. This is not enough to survive. What does that mean? I mean, we have never said anything along those lines necessarily.

**Rhonda Boyles:** We've not discussed it in this committee. I don't think any one of us has articulated that we're going to close that dairy down. But if we don't make the modifications necessary to that plant, will we have to close down?

**David Wight:** Do you want me to be the contrarian?

**Rhonda Boyles:** Yeah.

**David Wight:** I'm the new kid on the block relative to this business. And here's kind of how I see it. The creamery has worked very, very hard for 20 years to keep themselves in business. But the changing business environment, which squeezes the margins, the aging of equipment, the new federal requirements around that, are all putting substantial economic pressure on the creamery to be able to stay in business.

I don't know what other people think, but I personally think that without something being done, somewhere in the next three years to 10 years, Matanuska Maid as it exists today goes out of business. But this is what it looks like. And then – so then you have to say what do you want to do. Do you want an agriculture here, and if you want an agriculture here, you've got to have somebody that handles the milk. And so that's Matanuska Maid or some other model.

And why do I say it goes out of business? I just – I looked at the 20 years worth of business and I've gone through both his facilities, you know, looked at the equipment, I've looked at the space he's in. And it's really, really challenging to continue to innovate without something being changed around that. And it's going to take some capital to cause that to happen.

**Don Lintelman:** Well, what – you got to put a question like this. If something happens to Joe, it's going to – most – some of it's going to come off onto me, probably 90 percent of it. The reason I say this is, is because we sell Joe's byproducts. And in order to get in some of the stores, we need his byproducts. So we're not going to be in those stores if we don't have it. And the next thing is that if milk desists coming in here into the state with either Joe or myself gone, the whole thing is what are milk prices going to end up in these stores? These guys are going to play a game with this thing and they could – you could pay $8.00 a gallon. There's no doubt about it. Because you go to Fred Meyer's and Safeway dominating. Here – you talk about Wal-Mart. But I don't know, maybe Wal-Mart will marry up to them the same, you know, and come together. Who's chosen that they're not going to be able to and – or merge, you know. And like I said, it would be $8.00 a gallon and then these people will be whining because of that if we're not here.

**Paul Huppert:** You know what Don says, I think we've had an example of before. And I think I've reiterated that before. But in the Matanuska Valley and Seward and throughout here, we had egg producers. And these stores went 49 cents a dozen week after week. You know, and when they killed off the last egg producer, I have never seen 49 cent a dozen eggs since then.

**Rhonda Boyles:** The issue that we have to face is that there's a reason that Joe said let's look at privatization. The ongoing situation is not acceptable, is it, Joe?

**Joe Van Treeck:** No, no. The business won't survive the way it is.

**David Wight:** Wait, let me challenge that. You know, in all due respect to our chairman and to the CEO of the business, when you say the ongoing model, I – to me that means the way we go about subsidizing local producers because he doesn't have enough money in his system. But if you didn't have to subsidize things, he might be able to find a way to run this business for a longer period of time. But then the next challenge is, is the space, the age and other things around his facility and the increasing security and other requirements around it.

**Wes Eckert:** But can I ask another question of Joe? In our previous statement, we were looking at instead of needing a million, million and a half, should require or may require a million, million and a half over the next three years because of obsolete equipment and stuff like that. If you've got an infusion of say – say you had a profitability – you and I talked just before lunch. And say you didn't have to pay these high prices to producers and you paid a reasonable price to producers and you made a million bucks a year. And earmark that for new equipment and upgraded the building and refrigeration system and, you know, all kinds of things, maybe a new computer system, whatever. But you earmark this million dollars of profit, could you perpetuate where you're at for a period of time?

**Joe Van Treeck:** Well, I think we could because that's what we've been actually – that that by definition is what we've done.

**Wes Eckert:** Yeah, it's the whole theory of, you know, if you've got the money, you can perpetuate. It's like the guy who said well, I had the same ax for 50 years. Now I've had a dozen different handles and five or six different heads to that ax, but it's the same ax. It's the same thing like an old car. You know, if you've got enough money and enough parts, that car will run for a long, long time. It's the same way with most factories. You know, you can replace a motor, and a pasteurizer, and a filler and whatever. And if you got the money, but you've got to have the money. You're profitable or making a million bucks a year, profitability and you could earmark that.

So to say that – my point, Joe, is that to say that you're going out of business doesn't ring a bell to me if there's profitability there and an infusion of cash or wherever it comes from. I know a lot of old plants that are still running. It's just – they either are well maintained and they just keep updating everything. You know, and replace the floors and replace the walls, whatever.

**Joe Van Treeck:** Right. The biggest challenge – if you look at it, the biggest challenge that we face are not the normal operating challenges. The biggest challenge we face are the unknowns around can we actually build in the systems, the management systems around the security and safety issues that both the government and our customers – not the consumer – the customer want to have in order to assure that there's no liability for their product, for what they're selling of our products in their stores. And, you know, what we've been watching is that the customer actually is almost more aggressive in demanding change than the government is. Because the industry itself doesn't want oversight, doesn't want more intervention in their business model. So they're establishing their own policies that are causing, you know, suppliers to have to gravitate towards. So like with the insurance thing that Gary Beu was talking about, the liability.

**Wes Eckert:** What I see your long-term vulnerability is milk supply and that comes down to the bottom line. And not plant. So we're going down the road about the plant shutting down and I'm just struggling with that a little bit.

**Rhonda Boyles:** Well, understanding this is just like a draft to start working from. I expect you guys to mark it up, okay? Try – Ken.

**Ken Sherwood:** Well, this is just a small point, but if you're advocating for Mat Maid and you think that whatever local milk is produced should be run through Mat Maid. I don't think I'd made a statement to build a new creamery it could cost up to $40,000,000.00 when the producers are saying give $650,000.00 and I can sell you milk. I think you should – you know, that's both – probably neither number is correct. And one's extreme one way, and one's extreme the other. So just – since I think the Maid should market this local milk because they've got the expertise and they know what they're doing. I think you should kind of either strike that or downsize that dollar amount.

**Joe Van Treeck:** Or you could just say to build a new creamery could be expensive.

**Ken Sherwood:** Yeah, exactly. Don't throw a number out until you have a number. And you don't know what the number is.

**Rhonda Boyles:** Okay.

**David Wight:** And I think you're exactly right. That's a lightening rod. And it will be used to discredit whatever discussion that we're driving at. We don't need that.

**Rhonda Boyles:** Okay. Should we list the options here for whomever wants to make a decision? The Marks of the world that's going to make a decision. Lower price to the producer, Joe can survive. We don't have to subsidize. Only what the state is subsidizing now, which is not charging you rent because you and I can debate this. You know, what you have is a triple net lease. You're taking care of all the expenses, upgrades, everything, but you're not paying a lease payment. I've had to sign a few of those in my day; it's not uncommon. But we end up paying a lease payment. So I think there is a subsidy and I – but that's my opinion. Are we subsidizing Mat Maid with the rent payment?

**David Wight:** No.

**Rhonda Boyles:** We're not.

**David Wight:** I don't think so.

**Rachael Petro:** Well, I don't think you can really say that until you have the numbers. Like how much would a lease and how much – I mean, I'm willing to bet that Joe and Mat Maid is actually, you know, it probably balances out or maybe tips one way or the other. But you can't really – that's like, you know, I mean, you can't say – it could be either way.

**Rhonda Boyles:** Joe, are we subsidizing with no lease payment?

**Joe Van Treeck:** I don't believe so.

**Rhonda Boyles:** Mark, does the legislature believe that?

**Candy Easley:** Disagree.

**Mark Neuman:** No. In my opinion, we don't. Because I look at it as investment capital. An economic engine in our state is an investment capital into our state. You know, the state owns the 1,000 shares in Mat Maid. But what does the state get back out of it as far as an economic engine? We get $20,000,000.00 worth of economy in our state. Is that a subsidy? Not in my mind.

**Rhonda Boyles:** Okay. Do your peers – do you have a problem selling that to your peers?

**Mark Neuman:** My problem, I'll tell you right flat out on the line. My problem that I have with my peers in management – I don't know if it's management. Labor is always expensive. It may be the structuring of the board. And I have people in the legislature who say, well, because we have union members at Mat Maid and they maybe have to restructure like a lot of industries had to restructure lately with less benefits, or a reduction in salaries. I have members of my legislative body who say I'm not going to fall on my sword with the union over Mat Maid. That's the flat bottom line on it because they don't want to get in trouble with the union. And is that right, wrong or indifferent? I think it's wrong.

**Rhonda Boyles:** Politically correct.

**Mark Neuman:** It's politically correct, but it's not right. You know, in my mind I think that everything needs to be laid out on the board to say what do we have to do to make Mat Maid work properly. Is it going to be – I know when I – 90 percent – well over probably 80 to 90 percent of my cost of my business is labor. And I think that probably holds true for a lot of businesses. You know, and right now, we're seeing labor all around America restructured. Look at United, look at Ford Motor Company, look at General Motors, look what they're doing right now. And what they're having to do to stay alive. You know, is this what's going to take – Mat Maid has a – how much was your sales total?

**Joe Van Treeck:** Sales?

**Mark Neuman:** Total sales and stuff.

**Joe Van Treeck:** Just under 15,000,000.

**Mark Neuman:** 15,000,000 to make up $1,000,000.00, you know, or $25,000.00 loss that you had this year, or to try and make up that $1,000,000.00 that has to get reinvested. That's where I have trouble convincing my peers. You know, are we looking in everything here.

**Rhonda Boyles:** But – okay. Okay.

**Mark Neuman:** I mean, that's – you wanted the opinion of what my peers tell me, that's what they tell me.

**Rhonda Boyles:** Okay. So tell me, do we subsidize with rent? Which.....

**Unidentified Speaker:** I wanted to hear what Candy had to say. She was jumping up and down.

**Candy Easley:** Oh, I disagree on that we're not subsidizing and the shares are held by the ARLF, we received that because of defaulted loans. And the ARLF infused a lot of money into Mat Maid that we're not getting back. Now, in theory if we sold it, we'd recover. If anyone wants to make an offer. But it's not only the Anchorage property. It's also the blow mold and we have a very, very prime piece of property sitting in the middle of the City of Palmer worth some money that the Mat Maid doesn't pay anything on. Now, you pay the taxes, the insurance is there, and absolutely it complements – I'm not saying that they shouldn't use it.

But if you had to go out and rent a warehouse and facility for that blow mold thing, that would cost you a lot. Plus, any other business would be paying in their debt and on – you've done a great job, but every dime that you've made has been in capital improvements, badly needed, but no payment was made on – to your shareholders. So I don't know that I'd call it a subsidy, but anybody else operating th at, it wouldn't be a wash.

**Rhonda Boyles:** David.

**David Wight:** The business model – see, I can agree with the analysis I just heard and still say it's not a subsidy. Put it in a business context. The corporation owns Mat Maid. They look for repatriation of funds, which is profitability. You know, a dividend that they pay back. The model is not healthy enough to pay a dividend. But they don't look at it to pay rent for a building or something else. They take all those things into account and basically a corporation would look at something like Mat Maid today and close the door. Because they're not getting a return on their money. And they'd say, well, I could go settle up on these properties, get some money out of it and go do something else because I'm not getting a rate of return on my investment.

So then you say, well, why aren't you? Well, part of the reason you aren't is because the business model has been directed to provide a way of keeping other businesses in place. So maybe you are getting your rate of return. I think the representative said it well. We've decided we went this to provide employment and an agricultural business here. But I don't think rent or no rent in this case is a subsidy. You own it. But it's not performing the way you want it to in terms of a business model unless you're satisfied that the money that normally would come back to the corpus, in this case the state, is okay that it's not because it's going somewhere else to keep other pieces in business. That's how I look at it.

**Mark Neuman:** But currently, no money is coming out of the state's general fund to go to Mat Maid. And it hasn't for a long time, has it?

**Candy Easley:** That's correct. But I agree with Joe, it's not if but when.

**Rhonda Boyles:** Yeah. But – yeah. So.....

**Paul Huppert:** Well, I agree with Jim here because a corporation don't pay rent to itself. I mean, that's their investment, their decision.

**Rhonda Boyles:** So what we have to do is, Joe, you have to get a number here that says how much are you paying above and beyond to those local producers that is considered subsidizing the local producers. Am I right? Isn't that the question that we keep asking?

**Paul Huppert:** I think everything over Seattle price plus freight is a subsidy.

**Rhonda Boyles:** Okay.

**Candy Easley:** I thought that's what you were doing now.....

**Mark Neuman:** Yeah, buying the same grade of milk.

**Candy Easley:** .....with the new scale.

**Rhonda Boyles:** That's got to be Joe's call in this report.

**Paul Huppert:** Whatever the competition to ship that same grade of milk in, plus – the sale price plus freight for that grade milk is a subsidy. The same grade that they get here.

**David Wight:** Can somebody help on this grade thing? Because I keep hearing it and I can't.....

**Paul Huppert:** The fat content.

**Rhonda Boyles:** Okay. We've been over this all once before.

**David Wight:** I know, but I don't understand it.

**Ernie Hall:** Yeah, if David wasn't listening and neither was I.

**David Wight:** I'm hearing impaired, I guess, because – no, I hear it, but somebody hasn't said that the butterfat content of this milk means it's worth more in this market than the other milk you bring up here. And if it's not, it could actually be a liability because you have a product that you can't do something with. And I haven't heard somebody, yeah, the fact that we got 3.8 percent or whatever the number is is a better deal. I hear the producers say that.

**Paul Huppert:** Well, you got a general.....

**David Wight:** But you've got to be able to figure out where you're going to use it.

**Rhonda Boyles:** And I think that when I asked Joe what the subsidy is that you have to explain it. That would be part of the explanation.

**Joe Van Treeck:** Okay. Okay.

**Rhonda Boyles:** And you have to justify it, otherwise it's a questionable subsidy, right? It's completely questionable.

**Paul Huppert:** Well, I think we ought to take it from a third party. I'm that's kind of controversy – but ask Don over here what he would.

**David Wight:** I think that would be a good one right there.

**Paul Huppert:** With that extra premium, what they call premium fat milk. We don't sell butter in Alaska.

**Rhonda Boyles:** Well, I'm trying to say that – excuse me, Gail and Ginger. This is what I do to the BAC, now, boys, what I'm trying to say is that's not something that I can make a judgment call on. And we can probably have it done in a paragraph. Can we not, Joe?

**Joe Van Treeck:** Sure.

**Rhonda Boyles:** And Don, you can say yes, this is a good paragraph or no, it's not.

**Don Lintelman:** Yeah.

**Rhonda Boyles:** Yep. I'll look forward to having it sent to Rachael to get in this report. How's that?

**Joe Van Treeck:** Okay.

**Paul Huppert:** It's done.

**Wes Eckert:** Rhonda, the only thing I would caution is, is that's part of the controversy that's out there that I've heard. That producers say we make a lot better milk. We ought to get more money than something else.

**David Wight:** That's not true.

**Wes Eckert:** But that's what they said.

**Rhonda Boyles:** We know it's not, Wes.

**Wes Eckert:** And I just heard it again from our representative that he's heard it that way. So we've heard the same conversation.

**Rhonda Boyles:** Joe, you're going to have to provide some backup that disputes that fact. In the event you want to maintain that there's some subsidy coming out of Mat Maid for the producers.

**Rachael Petro:** On the other hand, couldn't you just – I'm sorry – say it's local and that's why we like it better? There's – Alaskans are unabashed about saying everything from Alaska is better. And if we just call the spade a spade, I mean, as long as it's not worse than, I mean, we can identify why we say it's better. It's better because Alaskans are producing it it's generate – you know, it's our people.

**Ernie Hall:** But that's not the issue. They want more money for it.

**Rachael Petro:** Well, I know. But I mean, I'm trying to separate the two so you can kind of.....

**Rhonda Boyles:** Ernie.

**Ernie Hall:** Personally, I think that needs to come from somebody other than Joe. Joe's the one that's being accused of not paying for premium milk. Okay. Wes or Don, somebody other than Joe needs to defend that. If that's true – if that's true, then you or Don is the one that needs to say that's a falsehood.

**Don Lintelman:** I'll tell you one thing though, if those coffee shops in Fairbanks use that milk from Outside it would make a big difference. That's the reason why we're in every coffee shop in Fairbanks. Every one of them little coffee places you drive off in, get a cup of mocha, whatever, that's our milk in there.

**Ernie Hall:** I'm in the furniture business, I can't afford mochas.

**Don Lintelman:** And they demand that milk in there. And that's Alaska milk. It has to come from down here or up there.

**Rhonda Boyles:** Do you know, we're not going – in my – the use of this report.....

**Don Lintelman:** So it is good milk.

**Rhonda Boyles:** Okay. The use of this report, we are not going to be able to fight every battle that has gone on for 20 years.

**Unidentified Speaker:** Or more – 35.

**Rhonda Boyles:** Or 35. We have to make a statement. And I've heard it here numerous times that the subsidy coming – there is subsidy coming out of Mat Maid. Consequently, Mat Maid is losing money and a little bit compromised. Is that a good statement? Okay. What are we going to do about that? Joe is going to give us that number because if Mat Maid doesn't pay it, the state needs to know. It's got to come from somewhere, right?

**Paul Huppert:** Wes, could you write that statement out?

**Wes Eckert:** I'm not sure what you want.

**Paul Huppert:** I think you want to answer the question that (indiscernible).

**Wes Eckert:** About the butterfat. The butterfat has nothing to do with quality. I mean, it's a different product. He has a reduced butterfat product, specifically because he can't use the fat, excess fat. That's the whole difference. Quality is a whole different issue and you can have a debate here for the next month and a half about quality issue and I can guaranty you that milk coming into – either in bulk or into the stores is good as anything you'll ever find.

**Mac Carter:** Milk is milk is milk, right?

**Wes Eckert:** Absolutely.

**Rhonda Boyles:** Okay. Ken, going to add to this before I go on?

**Ken Sherwood:** No.

**Rhonda Boyles:** Okay. We have some options here, believe it or not I think we have to look at them. One is Joe's going to identify if he's paying too much to the producers. Then he's – that's got to be said. And he has to justify that; he has to argue that point. We also have to deal with the issue of privatization because that's what was brought out at the annual meeting and that's what went into ADN and people are going to ask that question. What if we privatize the creamery?

We also have talked at length the last three times we've been together bonding that we have to – can we size-down? Can we relocate it to Palmer? And we're going to need to study that. That's not something that this group can discuss, right? And we also just had a conversation today about Joe, what's going to happen if you have no local milk because Chad's mean. No. There may come a day, but we need to answer that question.

Now, I think we need to make a statement that says how we're going to address these. And believe me, I think it's the Creamery Corporation's board of directors that has the responsibility to direct the corporation and evaluate all of that. Tell me what's wrong with that theory. Or do you want to come together for whole other day.

**Joe Van Treeck:** For the – I mean, in general or for the purposes of the report?

**Rhonda Boyles:** For the purposes of the report and in general, practically. We need – The Creamery Corporation needs to direct the corporation. That's what I would say, argue with me.

**Joe Van Treeck:** For the purposes of a report, this is what we want to say in the report. But for the purposes of the report, are we going to try to – you know, using Rachael's imploring this morning, are we – we're going to try and gather up our seven members now to have a similar discussion about Mat Maid independent of the rest of us? I don't think – you know.....

**Wes Eckert:** Well, you're the chief executive officer, you could write it up.

**Rhonda Boyles:** You're the one that said we could privatize, Joe.

**Joe Van Treeck:** No, that's not what I said. I said if the state's not willing to continue to capitalize the industry, then they should privatize or otherwise get out of the business because it can't continue to operate the way it is without changes being made. That's what I said. So I was not – I wasn't – I didn't have my pom-poms and my tassel on my shoes saying we should privatize, ra-ra-ra. It was more of a warning call for the situation that we find ourselves in.

**Candy Easley:** So are you just suggesting, Rhonda, that this report include a recommendation that the creamery board address these options? Is that.....

**Joe Van Treeck:** Going forward.

**Candy Easley:** Yes. Not this group decide those things.

**Gail Phillips:** I think though we have to separate the issue of the subsidy that Mat Maid gives to the producers from that whole discussion. Because we cannot make a decision on the viability of Mat Maid as long as they have to pay that subsidy to the producers. So that's a totally different issue to me.

**Rhonda Boyles:** It is. And we have to have a statement to that subsidization. And we have to make a statement in this document that says if the dairy continues to pay this much out to the producers, the state is – the state can either subsidize dairy or the state can subsidize the producers. But that's a fact, existing fact.

**Gail Phillips:** And if the state refuses to subsidize the dairy or the creamery, then the creamery is at risk of going away.

**Rhonda Boyles:** Right.

**Gail Phillips:** And that has to be the – there has to be the alternative.

**Rhonda Boyles:** Right. And we have to – The Creamery Corporation – what I'm trying to do is to not spend two more days in a meeting here figuring out how we're going to deal with the corporation when we don't really know how the state's going to react to all of this. And I think that The Creamery Corporation board is the appropriate entity to look at alternatives for the creamery. Is that thought process wrong? Ernie.

**Paul Huppert:** No. You know, if you quit subsidizing the producers, then there's a whole new light on the Creamery Corporation.

**Rhonda Boyles:** But we still have the physical plant, we have all the equipment, we have all those other issues.

**Paul Huppert:** That may be so, but then you may be at a profitable mode that you could go ahead and take a different look at financing that total operation. And you don't.....

**Rhonda Boyles:** But that's not going to be us.

**Paul Huppert:** You know, I've always felt that that creamery belongs to the people of the State of Alaska, not to a few producers. I mean, that's who financed that operation. And always should be treated by that board as a corporation for the State of Alaska. That's where it belongs.

**Rhonda Boyles:** Thinking – am I – is this off base, Ken?

**Ken Sherwood:** No, I agree (indiscernible).

**Ernie Hall:** The one comment that I would make though is less – if we're thinking out a number of years and the possibility comes to privatize Mat Maid, because if you make this change and the subsidy's going directly to the farmers and not being passed through Mat Maid, that may eventually produce a financial that would actually be something somebody could buy. But as long as you're always passing that subsidy through the creamery to the farmers, you're going to end up with something like the meat plant where it's not a realistic financial statement that you're ever producing. And then you start doing the caveats, we'll sell you the dairy, but you got to pay this much to the farmers. And then you end up with a McKinley plant that nobody will bid on. So I think it's imperative that if you're going to do a subsidy, it go directly to the producers and then see if Mat Maid can stand on it's own two legs.

**Wes Eckert:** We made that mistake twice before on Mat Maid. Twice they tried to sell it. And the issue came down to what are going to pay the farmers.

**Ernie Hall:** Right.

**Wes Eckert:** And they were told what their milk was worth, you know, it disappeared.

**Ernie Hall:** Immediately. Right. But I think that's one thing we need to be clear on this that where the incentives go or the subsidy, whatever terminology you want to use. But I think it needs to go directly to the producers and see if this entity can stand on its own two legs.

**Rhonda Boyles:** Have we got that, Rachael? We can smooth that out, but I think that that statement needs to be said. Does anybody have a problem with that statement being said?

**Mark Neuman:** I think that it's a clear statement, but I think that the statement isn't complete. Because it says that we have to – there is, again, a pass-through either to the producers or the creamery. But we still have not heard from the Department of Ag. And I don't know how we can get it, or how or where we're going to get it, what is this industry worth to our state?

**Rhonda Boyles:** Right. We talked about that earlier today and kind of put a number to that, Mark, about 49,000,000.

**Mark Neuman:** $49,000,000.00 I read.

**Rhonda Boyles:** Yeah. So all of this I keep going back to keep this in perspective. What we're doing is to address what has taken the Division of Agriculture's – all their time, dairy, Alaska Grown. Have we done anything else, Candy? Loaned a little bit of money.

**Candy Easley:** We've done a few other things, but that's been our priority.

**Rhonda Boyles:** We got to address this in some kind of form or fashion and at least have others help us solve the problem, Mark, so we can go on and talk about Paul's wonderful carrots. Okay? And the blueberries and everything else that we do good. Joe, you're having a meltdown.

**Joe Van Treeck:** No, I'm fine. I just wanted to make sure I got notes before you erase them on the board.

**Rhonda Boyles:** Mac, I'm sorry.

**Mac Carter:** I'm sorry. I don't mean to acquiesce, but I agree with Representative Neuman. And that was one thing that I had requested and that was an idea – we just got a number. Well, that number's not substantiated. Because we really don't have any concrete figures as to what the economic impact is on the entire state as an industry. Because it feeds beyond everything.

**Rhonda Boyles:** Carol.

**Carol Lewis:** Well, you can do a few things. You have a number every year that says these are the farm gate receipts. The ag stats says there's your (indiscernible). Every single segment of the agricultural industry has a very different multiplier and those multipliers can run from anywhere from 1 to 11-whatever. In the Lower 48 states you can take an average 1 to 3 (indiscernible) is the multiplier. It means a dollar rolls over 2-1/2 times within a real agricultural industry.

Now, do we have a real agricultural industry? I'm not sure that the mix isn't coming closer and closer to what you've got in some of the Lower 48 regions. So I wouldn't be uncomfortable using a 2.5 multiplier. And so take that roughly 45,000,000 and multiply by 2-1/2.

**Rhonda Boyles:** You can do that when you do this, right?

**Carol Lewis:** I won't put that number down, no. I'll talk about multipliers, but I won't associate myself with a number that I haven't calculated.

**Rachael Petro:** The number provided last week was derived (indiscernible).

**Carol Lewis:** I can put down – it's industry farm gate receipts are worth this. And a general overview of what a typical agricultural multiplier is. But I won't state a number, nor will I multiply. Where did the 49,000,000 come from?

**Rachael Petro:** It came from the university using a multiplier. That's where it came.....

**Carol Lewis:** What's that?

**Rachael Petro:** It came from – that wasn't Larry's.....

**Carol Lewis:** No, I realize it was from Tony Nakazawa and actually who gave that to him was (indiscernible).

**Rachael Petro:** That's what I thought.

**Carol Lewis:** And we – then we did it saying just what we said. That typically, in the 48 states the multiplier is between 1 and 3 on an average over the entire industry.

**Rhonda Boyles:** So can you write – can you give me something?

**Carol Lewis:** I can give you something like that.

**Mark Neuman:** But that's all you need is.....

**Carol Lewis:** That's all you need.

**Mark Neuman:** Here's the direct.....

**Rhonda Boyles:** Don't worry, there's not a politician that reads it, Carol, that won't agree with you.

**Carol Lewis:** Yeah, but I've had many of my numbers remembered and so I (indiscernible). And some of them did not remember that I have a problem (indiscernible). At any rate, I think what we have here is a case where we're still struggling in an infant industry. And nowhere – in fact, internationally nowhere have I seen or anyplace seen private industry step into an infant industry and support it by building its infrastructure. And until people understand that in growing industry you have to have some type of supported infrastructure of which the creameries and the slaughter plant happen to be a part, that industry isn't going to grow.

People love the producers. You pull the infrastructure out, and you don't have any producers. And you've got a perfect example in the grain terminal that was supposed to be built in Seward. We have now closed (indiscernible). The question of whether it would become viable to export a commodity at this point in time from Alaska is out there. But the point is, you have no chance to try it.

So when I say support the creamery and is there a reason to do it, if you want to grow the industry, there's no way other than to have the state do it, have the state support that infrastructure. And I don't see a way that we could sell support unless Joe can come up with a financial statement that speaks to the corporate value. And the only way he can do that is to have a financial statement that doesn't have a (indiscernible) subsidy to producers.

**Rhonda Boyles:** No new answers here, Joe. We've talked about appraisals, we've talked about redoing financial statements, we've talked about all of that. But we – what do you want to tell the legislature? That's what we're trying to get at.

**Mark Neuman:** Is there any way we compare – can compare Alaska to a national average or other states? And I'll go back to a statement that I made the first day I was here, and that's agriculture, in one way shape or form or another has always been subsidized by government, no matter what state where you're in because of the economic value that it provides to the community. Can we – is there any way we can compare Alaska, if we – if the state invests one to 1-1/2 million dollars into Mat Maid or another $500,000.00 in subsidies to the producers, can we compare that, that economic value compared – you know, it's a total of $2,000,000.00. We've got an economic value of $49,000,000.00 with a multiplier approximately up to 2-1/2 times for $90,000,000.00, compare that to Washington State, Montana, some of the other states that are nationwide.....

**Rhonda Boyles:** We can get that. We talked about that this morning, getting some of that information. And we can do an attachment. Can you go back to that bottom paragraph? So feed it up. An investment and commitment by the next administration would allow the board of directors of the creamery to evaluate possible relocation, possible privatization, size, re-evaluation and logistics. The Board of Ag directors must mirror the immediate goals in their expertise. And the Board of Agriculture and Conservation must make a statement of support to keeping the dairy industry healthy and growing. The State of Alaska also must make a statement of report and we can add there, Mark, as other Lower 48 states exemplify, reference attachment, and you can give me the information, right, Chad? Would that work?

**Mark Neuman:** Yes.

**Rhonda Boyles:** What's wrong with that paragraph? Beat it up. Gail.

**Gail Phillips:** On the last line, I think it's not strong enough. It should say the State of Alaska must also make a commitment to support, not a statement.

**Mac Carter:** Take out statement and put commitment.

**Rhonda Boyles:** What else?

**David Wight:** On your evaluation line.....

**Rhonda Boyles:** Uh-huh (affirmative).

**David Wight:** .....it – my preference is to say that we must evaluate the current and alternate business models to include, among others – and then list those. Because there are other things that you might do, which would be – how do you upgrade the facility where it sits. You know, can you get some more property around it, can you do some of the things that need to be done there. And so it – a little broader statement on, as a board, we want to look at all of the opportunities around what we might do, which would include moving it, privatizing it, improving it where it sits, that kind of stuff.

**Mark Neuman:** Selling the property that it's got right now to build a smaller plant that will work within.....

**David Wight:** That would be.....

**Rhonda Boyles:** That's part of size re-evaluation and logistics.

**David Wight:** .....relocate and size. Relocate and size would both be in that category.

**Rhonda Boyles:** And you've got to add to that a logistical study for disbursement of product to maintain the 40 percent market share.

**Wes Eckert:** And a long-term milk supply to make that investment.

**Rhonda Boyles:** Oh, no, Wes, we're not going to talk about that. Chad is here. (Indiscernible).

**Wes Eckert:** If you'll take a little break when you're done with this particular subject, I'll put some statistics and numbers on the board which you asked for just before lunch. When people come back, I'll quickly show them what some of the numbers are in the Pacific Northwest.

**Rhonda Boyles:** Okey-dokey. It is 3:00 o'clock; 10 minutes to. And then we'll come back and talk about Mt. McKinley. Okay. Any of you want to add anything to the creamery side of it, now's the time to do it. Just go see Rachael.

(Off record)

**Wes Eckert:** Okay. I'm going to do this while she's on the telephone. This is just – it has nothing to do with our discussion, but we're talking about the net/net price that Joe has to pay and what his competition is. Now I've talked about what they're doing in the Lower 48 or in the Pacific Northwest, is the area that I operate in. It was like any other business. It was a dog eat dog kind of a business.

But the truth of the matter, that's just competition. You know, that's what's in the store and that's just competition. I'll just give you an idea of where these people are coming from. There are 10 federal marketing orders in the United States that control the majority of all the milk in the United States. And there's a Pacific Northwest order and there are four classes of milk. Class 1 is packaged milk. PM is packaged milk and that's what Joe primarily gets, and that's what he buys and that's what the Fred Meyer's and Safeway move in here is class 1 milk.

Class 2 is byproducts, whipping cream, half and half, cottage cheese, ice cream. Class 3 is cheese and whey. Class 4 is powder and butter. Each of these have their own pricing system under the federal order. And stated earlier, what percent goes to which; 27 percent is class 1. It's just the Pacific Northwest order. Six percent for class 2; 30 percent for cheese and whey; 37 percent for powder and butter.

The blend of all four price differences is what the producer gets. And I put the class 1 price in this column. And you can see it varies a lot. This is the package milk price that Joe is primarily interested in. And this is 2001. So it went from 16.17 down to 12.91 up to 13.27 up to 16 in '04, 16.88, '05, 16.30, down to 13.79. This is class 1. '07, this is an estimate because the year isn't over with. And this is a long-term estimate for next year, 14.76. The blend of all four of those numbers, is this what the producer gets.

So in these – in '02 and '03 they got 11-something for their milk. That's a blend of all four. Okay? And then it went to high of 14, 14, 14 and the this year the average is just right at $12.00, what the producer gets. That's a blend of all four of those classes. And that's for 3.5 milk.

**Joe Van Treeck:** That's what they get before deductions.

**Wes Eckert:** Now, this is off the record and I don't want to see this in any reports. This is semi-classified information. Now hands off, please. The average cost to produce milk in Western Washington and Western Oregon, that's west of the Cascade Mountains, where you have an entirely differently climate. The average cost of all the producers is about 13.50. There's no exact number, but that's the average cost, 13.50. In Eastern Washington we have – my own company has a fairly large plant, we spent $60,000,000.00 building the cheese plant there. And in Southern Idaho, these are desert areas that are irrigated. The average cost is 12.50 per hundred weight for all the producers.

I know producers can do less than that. I would say that this number for the better producers is probably $1.00 less. And for this number is also $1.00 less. Probably 11.50 in Eastern Washington and Southern Idaho. And that's the fastest growing milk producing areas in the country, along with New Mexico, Arizona and California. And those are all desert areas. And they have these huge herds. They look like cow stockyards.

The producers in my old company currently – did a little research here. This marketing fee has been in existence for probably 40 years. We charge the producers to market their milk 9-1/2 cents a hundred weight. We call it a marketing fee. We have field service people that go out and work with the producers. And we have scheduling the trucks to go to the other manufacturers that buy the milk, we don't – our company didn't process all the milk, although they processed a lot of it. But they also moved the milk. And they had laboratory work. They'd do a lot of testing and quality work on the producers. All of that comes out of the producer's paycheck. This is deducted from whatever the producer gets, this is deducted. This is called a marketing fee so the corporation isn't burdened with the lab tests, the field service work and all the other things to – so that's a deduction.

Hauling costs for producers in the Pacific Northwest, this is the whole region, ranges from 30 cents to 80 cents per hundred weight. They average is 40 cents. The producers pays the cost to move that milk from the farm to the nearest factory, wherever that's located. So this is a deduction.

They can gain money by a quality premium program. The maximum that they – a producer can get is 12 cents. The average for all the producers in the northwest is 6 cents. Joe's paying $1.00.

On the other side of the ledger, they have a penalty program if your quality is not good enough. It may be legal by USDA or FDA, but it may not meet corporate standards. They can be penalized up to $1.00 a hundred weight for poor quality milk. And that might be white blood cells, and that's primarily what it's focused on. If your white blood cell count is a little high, up to – not up to their standards, you get dinged $1.00 a hundred weight right off the top.

These are adjustments in the milk price. And we were talking about what is Joe actually going to pay in the marketplace down on the store, and this is what the producers actually get. And we talked about the subsidies that he is paying now. That he's paying 2-1/2 for hauling, $1.00 for quality and 43 cents for every other day.

**Joe Van Treeck:** 32.

**Wes Eckert:** 34.

**Joe Van Treeck:** Yeah, 34.

**Wes Eckert:** Anyway, that's just kind of update where his competition is going from – going to.

**David Wight:** Can you go back to your first chart there? And what Joe is doing with local milk, and you were starting to think about how you price it, do you price it all at class 1?

**Wes Eckert:** I don't know that. That's up to him. He buys the milk and I'm.....

**David Wight:** But what he'd have to do as far as his business, is figure out how much goes into milk, to the other products. He doesn't make butter and he doesn't make powder, so that's not there. But you make – and you don't make cheese. So it's either in category 1 or 2, right?

**Joe Van Treeck:** Yeah.

**David Wight:** And he'd work out a weighted average price for where he sells milk.

**Wes Eckert:** He's not controlled by the federal order, so.....

**David Wight:** But I mean, just – really, if you were looking at really giving the producer the market value of the product, he'd look at where he sells at for this market as compared to that broader thing.

**Wes Eckert:** I have on my desk here, on the table here, the prices of the commodities. For example, in 2006, class 1 – the average for the whole year is 13.79 on class 1. 11.71 for class 2; 11.78 for class 3; and 10.88 for class 4. So milk that goes to powder and butter is work 10.88 in 2006 per hundred weight.

**David Wight:** So it's worth three bucks less than class 1.

**Ken Sherwood:** But Joe's not buying from a producer down there. You're buying through.....

**David Wight:** A corporation.

**Ken Sherwood:** .....a corporation who's charging more money. So you're paying more than that. So when you're comparing what you're going to pay for local milk, you got to figure in what you're actually paying.....

**Wes Eckert:** But they're going to charge him through the federal order system what the milk is going to be used for.

**Ken Sherwood:** Oh, they will.

**Wes Eckert:** They have to settle up with the federal government based on usage and primarily it's class 1.

**Joe Van Treeck:** And actually, we're not regulated in this market. But we have such a poor voice in the world that basically this becomes – and with all respect to my compatriot here, this becomes a dumping ground because what's important to see about this, is this. Is his job as a CEO was to reduce this and increase that because of this. This number here number is a blend of the four. So the more he can move milk from 4 to 1, the better this was for his patrons, people that were producing the milk.

**Wes Eckert:** The problem with that is, it's not just one corporation. It's all the dairies, it's a blend of all the dairies. So by moving more into class 1 means more class 1 sales, right, which we've said is flat.

**Joe Van Treeck:** Right.

**Wes Eckert:** Where the investment came in, whereas we have some of the largest – your company has some of the largest powdered and butter operations in the entire north – in the United States. So we made heavy investments in here because there was a slight better price for cheese and whey. And we spent a lot of money getting – moving that blend up into the class 3 so that producers could benefit.

**David Wight:** And the only other thing you could do there, you've got a flat market, is improve market share (indiscernible) category if you can do that. But that's hard to do too.

**Wes Eckert:** That didn't do a lot. I mean, because it's (indiscernible) control. It didn't do a lot. And the problem is class 1 is such a commodity competing in the stores, no person really made a lot of money in class 1.

**Joe Van Treeck:** Maybe you could help a little bit here. I've got something that I was going to say, but maybe you could help a little bit here because I don't have a dog in the fight then. But some of these wild swings that have happened now have happened because there's some program changes that have happened with the last farm bill that caused more spiking. Because this trend line used to be a lot more predictable with waves instead of deep valleys and high peaks. But what we've seen happen nationally is that cheese is consuming more milk.....

**Wes Eckert:** Class 1 price is set by the cheese price. (Indiscernible) the cheese price is pretty much there's a multiplier on class 1. And Joe's right, it's driven on cheese. So the cheese market, whatever it is, and the commodity exchange in Chicago.....

**Joe Van Treeck:** So if you have a spike in cheese, which means cheese manufacturers need to go buy milk – I have something.....

**Rachael Petro:** So I'm just saying that's it, we won't buy any more cheese.

**Joe Van Treeck:** Cheese manufacturers now have to go compete for milk because they can't buy the milk in their class. They're buying milk in this class. And you have a multiplier effect because there's a relationship between this price and this price two months out.

**David Wight:** I think when you look at all that though, milk production overall is up. But milk, fluid milk sales are flat. And where the milk production is going is cheese is grown exponentially over the last 20 years.

**Joe Van Treeck:** Per capita consumption is down. It's on a slippery slope down.

**David Wight:** Per capita. I know, per capita. But it stayed flat because the number of people are growing. Yeah, okay.

**Joe Van Treeck:** So now let me tell you here now for full disclosure. We've talked about the second milk price. And why I didn't bring everything to go in full detail. We built the full milk price out of this column, not out of this column. It was this column, plus a value for getting it here, plus quality, less local transportation.

**Rhonda Boyles:** Is that the new Tier 2?

**Joe Van Treeck:** That's how it was structured. And it was structured this way because the producers don't get this money. They get 27 percent of this. So it's not about what I'm paying. It's about the return the producer gets. That was the theory. It doesn't make it right.

**David Wight:** You lost me. Well, as to blend price.....

**Joe Van Treeck:** Each of these has their own price.

**David Wight:** Yeah.

**Joe Van Treeck:** And for '02, that's what the producer got. They didn't get this. They got 27 percent of this.

**David Wight:** Let's stop for a minute and say that I'm a small dairy, local producer, and all I do is basically sell fluid milk and what I get is the higher price, not the lower price.

**Joe Van Treeck:** Where?

**David Wight:** Because that's the market I sold it to.

**Joe Van Treeck:** Where? Here maybe, but in the northwest.....

**David Wight:** But that's the market you sell to. You basically sell fluid milk, right?

**Joe Van Treeck:** We sell out of these two classes.

**David Wight:** Yeah, but, okay tell me what your ratios are. How much is milk and how much is in class 2?

**Joe Van Treeck:** Oh, it's probably 90 percent here.

**David Wight:** Okay. And then why wouldn't that be the blended price that you would pay?

**Joe Van Treeck:** Well, it could be. But then you got – what we took to use could have been any set of numbers. We took the blend price because that's the farmer's receipts. We compared farmer's receipts to farmer's receipts.

**David Wight:** I understand that, Joe, but if I'm sitting here as a farmer and you're telling me that you need to give me a market price, if your market price is 90 percent class 1 and 10 percent class 2, why shouldn't I get that blended price rather than something else?

**Joe Van Treeck:** I can't argue against that.

**David Wight:** All I'm doing is trying to view it from the other side.

**Joe Van Treeck:** Yeah, I can't argue against that. It was arbitrary.

**David Wight:** Okay. And it's arbitrary – just to be ornery, it's arbitrary on the low side for somebody else, for – it helps your bottom line, but it hurts the dairy farmer's bottom line.

**Joe Van Treeck:** It can. But it doesn't mean – necessarily mean because it.....

**David Wight:** Well, historically it does.

**Joe Van Treeck:** In these trends, it was also going to track with the trends.

**David Wight:** I know, but it's two bucks – it's a buck and a half to two bucks less per hundred weight, right? Put that chart back up.

**Joe Van Treeck:** Oh, yeah, it can be.

**David Wight:** I mean – yeah.

**Rhonda Boyles:** Okay, will somebody tie this in to what we're doing for me?

**David Wight:** It just had to do with you were asking what is Joe, if he's buying it from the states, what is – and that's all he paid to farmers, what would that be.

**Gail Phillips:** Then it's my understanding from that and from what you pay today that you're actually paying the producers a very good price here in Alaska.

**Joe Van Treeck:** Under the old model.

**Gail Phillips:** Yes, yes.

**Joe Van Treeck:** Under the old model there is not probably another place in the country that's – well, Hawaii. I'm not sure now if Hawaii's floating or not, but it's a static price that doesn't flow into all that variation. Yeah. And actually, in the times where Chad was talking about the federal program for the MILC which is happening today, there's – prices are depressed Outside. There's no differentiation across the country. Everybody can qualify based on their pounds as long as they under 2.4 million pounds of milk. Actually, today, local producers here are getting a bonus without having to pay the penalty, which is low prices, that it caused the thing to be triggered to begin with Outside.

**Wes Eckert:** One more number, then I'll let you (indiscernible). The average producer every day produces this much milk in the Pacific Northwest.

**Unidentified Speaker:** Average. Every day.

**Rhonda Boyles:** 36,000 pounds?

**Wes Eckert:** The tankers, the milk tankers haul 72,000 pounds of milk. So one producer – that's an average of all the producers in the Northwest. That's their average production per day and that's half a tanker. 72,000 pounds is what a tanker holds. That was last year. Now, this year is going to be more. I think closer to 40,000.

**Unidentified Speaker:** But that includes producers like Carnation and large, super-large dairy farms that are milking three times a day and got 800 cows.

**Wes Eckert:** Well, yeah, I would say the average is going to be – I don't know. It's going to be in the Pacific Northwest around 700 cows maybe because there are some that are over 20,000 cows. They figure – you've got to have at least 500 to break even unless you have no debt.

(Tape change)

**Rhonda Boyles:** We have 800 dairy cows in the entire – so we have 800 cows and how much are they producing?

**Joe Van Treeck:** About 9,000,000 pounds I think this year will probably (indiscernible).

**Rhonda Boyles:** Which is how much per day?

**Unidentified Speaker:** Well, between Don and – he said he's picking up 20,000 (indiscernible). And Don, you're getting 10,000 or.....

**Unidentified Speaker:** At that price, every pickup is about 35,000 pounds.

**Joe Van Treeck:** But the total milk production in state per day, if we divide 8,000,000 – 9,000,000 by 365 days.

**David Wight:** Less than 30,000?

**Joe Van Treeck:** Yeah, about 20 – probably 25 or 6,000 pounds a day in state.

**Mac Carter:** So it's the economy of scale. I mean, if you're going to ship, haul in a bunch more cows and then every one of them will 800 cows. And if they can break even at 500 and have the rest for profit, right? Am I.....

**Rhonda Boyles:** It makes sense to me, Mac. Is there -- Wes, Joe, is there a statement that we – back up to the producers, is there a statement that we make under the producer's section of this report relative to what you just said that.....

**Wes Eckert:** Well, we've been talking about the subsidies and then we were talking about what is the competition doing.

**Rhonda Boyles:** The real world, right.

**Wes Eckert:** And I keep – I hate to keep saying about what other people are doing, but my point has been this is what he's facing in the marketplace. This is where he has to come from. And so we were talking about what kind of subsidies he had. What is the net/net price of milk, you know. And the producer down there cost – you know, between the almost 10 cents for a marketing fee, 40 cents for hauling, there's 50 cents a hundred weight. Now they can make about 6 cents on quality providing they don't have any penalties, so – it's around, you know, whatever their price is less about 50 cents a hundred weight, you know. The producer has to pay in the Pacific Northwest, they have to pay these fees.

**Rhonda Boyles:** Okay. So Wes and Don and Joe are going to take a look at the quality statements so that we kind of get some objectivity. And Wes will author that quality statement for this report. And then Joe, we still need to go back to how much is Mat Maid paying in subsidy. However you calculate that, be able to defend it. Do you want to address your Tier 2 – yeah, Gail.

**Gail Phillips:** I would just like to throw out for the fun of it since we're still on – we haven't gone to the meat place yet. So it's obvious that Joe could make a lot more money buying all his milk from the Lower 48. And the issue of local milk really doesn't resonate that much with the consumer anymore since they're buying so much already from the product that's coming in from the Lower 48. So there we are.

**Chad Padgett:** That's a good point except for when you try to foreclose on somebody and then the emotion comes in.

**Gail Phillips:** But in just looking at the hard, cold facts, which a business has to look at, it's cheaper to buy from the Lower 48. Consumer loyalty is going to buy the cheaper price. That's all I wanted to say.

**David Wight:** And Joe, you get what percent of your milk is Lower 48?

**Joe Van Treeck:** Roughly this year it's going – it's averaging about 60 percent to 40 percent; 60 percent import, 40 percent local.

**David Wight:** Okay. And you represent 40 percent of market. So if I multiply 40 times 40, 16 percent of the market is locally produced. That's what I wanted, which is your point exactly.

**Gail Phillips:** Exactly. We could use the Matanuska Maid label. Nobody's going to take that label away from you.

**Rachael Petro:** Well, actually.....

**Rhonda Boyles:** Thank you, Wes. Okay. Can we move forward now? Rachael says she's got the section all written on the creamery.

**Rachael Petro:** I just.....

**Rhonda Boyles:** Okay.

**David Wight:** Rhonda, can I ask a question of Wes for a second? My conclusion in looking at this thing is that higher butterfat content of milk doesn't result in a higher value.

**Joe Van Treeck:** Yes, it does. It does.

**David Wight:** It does?

**Wes Eckert:** You get paid so much a pound for the fat and.....

**David Wight:** Oh, it weighs more.

**Wes Eckert:** No, no. It has nothing to do with that.

**Unidentified Speaker:** No, it's – actually, it's lighter, isn't it?

**Wes Eckert:** It's lighter. Excuse me. There is a protein and a fat value and their milk is analyzed on a regular basis.

**David Wight:** Then how does it work into this?

**Wes Eckert:** It doesn't have anything to do with that. It's just – you're talking about the price of milk.

**David Wight:** Right.

**Wes Eckert:** And that price I've showed you on that following chart was just for 3.5 milk and an average protein value.

**David Wight:** Okay. And so then what you do is behind that, you've got to look at each individual dairy and look at product content and it tells you how it should be priced.

**Wes Eckert:** A Jersey cow or Guernsey cow, that herd's going to get more for their milk.

**David Wight:** So it's plus or minus that based on.....

**Wes Eckert:** Yeah. Their volume is less but they're.....

**David Wight:** That's why I asked the question. I was headed in the wrong direction.

**Joe Van Treeck:** Well, there's also another thing too. At 3.5 there's a value for butterfat and there's a plus up and negative back.

**Wes Eckert:** Right. That's how the federal government grades it at 3.5. All the numbers you'll see that footnote at 3.5 fat.

**David Wight:** Okay.

**Joe Van Treeck:** So when you do the comparison on local milk because our current – our program here for 20 years, we took the butterfat and sent them away when we stopped making ice cream because we didn't have a market to deal with surplus fat. So we are buying milk at federal definitional standard, 3.2%. 3.25 is the definition. Up to 3.2%. Above that, we're not paying a premium. Below that, we pay – we're charging a deduct.

**Wes Eckert:** In the bottle, all milk is standardized whole milk or homogenized milk is standardized to 3.25 percent fat.

**David Wight:** Okay. It's like 3.2 to 2, 1.

**Rhonda Boyles:** So I will look forward to like a three or four hour corporate board of director's meeting when we talk about the Tier 2 to go back through some of this, huh, Joe?

**Joe Van Treeck:** No pride of authorship. Yeah.

**Rhonda Boyles:** Let's move on to Mt. McKinley Meat & Sausage. Otherwise, we're going to have to call another meeting and I'm not going to co-chair for you boys and girls. Twenty minutes to 4:00, Mt. McKinley. We've already determined the annual loss to the ARLF is approximately 200,000 per year. Or the – right, Candy, ARLF's.....

**David Wight:** For the last year.

**Rhonda Boyles:** For the last year. But it – was it making money before then?

**David Wight:** No, it lost 145 a year before then.

**Rhonda Boyles:** Thank you. So there's constant loss there. We've talked about the dynamics between the Department of Corrections and Mt. McKinley. And what you have in front of you is the best – my attempt to kind of pulling it all together. What I want from you are some statements that we can make relative to this facility.

**Mac Carter:** Give it back to the Department of Corrections and since most of the product goes to them.

**Rachael Petro:** Well, that will only work if they accept it.

**Paul Huppert:** Well, would they accept it if the governor ordered it?

**Rachael Petro:** Probably.

**Paul Huppert:** I think our recommendation should be that the governor did order it.

**Rhonda Boyles:** So you want to give it back – the first one, Paul, you want to give it back to the Department of Corrections?

**Paul Huppert:** That is correct.

**Rhonda Boyles:** And let the (indiscernible) worry about the losses and managing it.

**Paul Huppert:** Well, we get so many discussions on this thing that I strongly question their financial report anyway to begin with. But the other thing is, they're operating a 2.5 million dollar farm out at Point MacKenzie that came out of the ARLF and the dairy – I mean, and the agriculture. And they seem to have to have a kill floor out there and a few other things. I think then they should just operate that Mt. McKinley Meat. It would be a great asset for the dairy industry and the red meat industry and they are the best market for that meat. In fact, I think that's the way it should go.

**Rhonda Boyles:** Okay.

**Mark Neuman:** Going back to statement number 2, also didn't we hear that they buy a large amount of meat from local meat.....

**Gail Phillips:** Brokers.

**Mark Neuman:** .....brokers?

**Mac Carter:** Mt. McKinley does, yeah.

**Gail Phillips:** And they're buying it this year because the Department of Correction – or the Mt. McKinley Meat price was too high so they're buying it from local producer – brokers who somehow are tied in with the Mt. McKinley Meats.

**Rhonda Boyles:** It's three-quarters of their revenue is produced just by pass-through.

**Gail Phillips:** Yeah.

**Mark Neuman:** So if Mt. McKinley closes that directly affects three-quarters of their business. I mean, a large part of some of the local producers.

**Mac Carter:** Three, there were three outfits.

**Rhonda Boyles:** One would think that the Department of Corrections would buy directly then from the local vendors.

**Gail Phillips:** Right, right.

**Mac Carter:** Yeah.

**Rhonda Boyles:** Right now they're – the Department of Corrections goes out – unless I got this all wrong, the Department of Corrections goes out for a quote and local vendors quote on it or whatever, but Mt. McKinley is there in the middle kind of passing it through into the Department of Corrections. That's three-quarters of the revenue that they generate. Now, did I get that wrong?

**Gail Phillips:** That's what I got too. So.....

**Rhonda Boyles:** Candy?

**Candy Easley:** No, it's correct. Except the meat plant doesn't have to bid like the other (indiscernible).

**Rhonda Boyles:** Right. Right. They just go – kind of cut their deals or whatever, buy it from all the local people, pass it through and give it to the Department of Corrections. And 25 percent of the revenue generated in Mt. McKinley comes from what?

**Gail Phillips:** Cull cows.

**Mac Carter:** Cull cows.

**Rhonda Boyles:** Cull cows. Of how much for – it's kind of going down, but it's necessary to have a place to take the cull cows because there's no market to sell them.

**Mac Carter:** And Mt. McKinley marks up what they get from those local, three local suppliers too. They mark it up and then sell it to Division of Corrections.

**Mark Neuman:** Which obviously DOC gets a better price from them than they would buying it from a broker for one reason or another. Because of that labor cost or I don't know what it is. Is the DOC (indiscernible) department to take over Mt. McKinley Meat & Sausage?

**Mac Carter:** They own it in the first place. They had it in the first place.

**Mark Neuman:** Pardon?

**Mac Carter:** It was under them in the first place.

**Candy Easley:** Well, they didn't own it. They were operating it.

**Rhonda Boyles:** They managed it. And they met – they were losing so much money, Mark, that under Senator Torgerson – right, Candy?

**Candy Easley:** Correct.

**Rhonda Boyles:** They said well we can do a better job managing it here in the Division of Ag. So the Division of Ag took it over. And now coming out of the ARLF fund is the quarter of a million dollar loss or 200 or 150,000, however much it is.

**Rachael Petro:** Can I ask a question of Candy? Candy?

**Candy Easley:** Yes.

**Rachael Petro:** When corrections was operating the meat plant, did ARLF contribute any to help operate that facility?

**Candy Easley:** They did, but not at first. At first, it was totally under correction's budget. Then they came to the division, threatened to close it unless we kicked in. Then we kicked in and it kept going up. And that's when Torgerson said, you know, give me an accounting of this and we could never get it so he said well, we're going to do it.

**Paul Huppert:** I think it was a method of leverage to get the DOC's budget up. They got the agriculture community behind it. I still feel that corrections should run this. I mean, I'd like to see a profit and loss statement on that farm. If that's the way they want to do it.

**Mac Carter:** Never. You'd never get it.

**Rhonda Boyles:** We got two issues. We've got Mt. McKinley and we've got the farm (indiscernible). We've got to keep them separate even though we know it's all kind of, you know, incestual. But we got to keep them separate.

**Paul Huppert:** Well, I'd like to, someplace in our statement, say that these things cannot continue to operate out of the revolving loan fund.

**Gail Phillips:** That's right.

**Paul Huppert:** I mean, that fund has got to be there for agriculture, for all the other agriculture (indiscernible). Consequently, Mt. McKinley Meat has got to go someplace else. And I'll tell you the dairy industry and the red meat industry needs it. They need Mt. McKinley Meat and they need that market at corrections. Because those cull cows are hamburger cows.

**Rhonda Boyles:** Do they need to manage – to manage Mt. McKinley, do you need to open it up five days a week, two days a week? Is there a recommendation we can make relative to the operations? Or do we say, Department of Corrections, here you are, we would recommend that you evaluate the operations closely?

**Mark Neuman:** There's not enough business to run it that many days a week. There's just not enough business to do it that many days, so.....

**Rhonda Boyles:** Five days. Right.

**Mark Neuman:** .....I think that's why they have a kill floor two days a week and processing two days a week.

**Mac Carter:** Yeah, it's just four days now.

**Candy Easley:** Four days full-time.

**Mac Carter:** Full-time.

**Rachael Petro:** Yeah, 10 hour days.

**Rhonda Boyles:** Like Wes said when we started this, if we didn't have a lot of oil money and we all were paying taxes, we wouldn't be here today, would we, Wes?

**Wes Eckert:** No.

**Rhonda Boyles:** So if this Mt. McKinley belonged to you personally and this was out of your checking account, what would you do with it?

**Gail Phillips:** Burn it.

**Unidentified Speaker:** We already that.

**Rhonda Boyles:** We've got a dilemma. Let's hear some.....

**Ginger:** Can you grow its business? I mean, can you bring in wildlife or is there too much of a USDA (indiscernible).

**Mark Neuman:** I think new management over there really needs to be looked at, the management structure and what's going on over there. I think that's a big part of it. We've had the same people manage it for 20 years and we've had problems for 20 years.

**Wes Eckert:** But what they're telling us is that it's designed for 50 animals a day and they're doing 20 a week. I mean, that is a no-win deal.

**Mac Carter:** And the outlet – and the layout of the building was not designed for its purpose. I mean, it's haphazard. It's – from what I can understand from management there, you know – I'm not an expert on that, but that's what.....

**Wes Eckert:** Well, the question I've always had is if that went away and the dairy farmers indicated that they were concerned if it went away, they wouldn't have a place for their cull cows and that sort of thing. It would affect the dairy industry. I just – you know, I guess am wondering if free enterprise would probably step in somehow and take care of those cows. So I ask the question, you know, what about these guys? I spent the night with my sister last night in Palmer. I asked her about where she gets her meat. She says well between Palmer and Wasilla there's this real nice meat place. I get all my meat over there and so do all my kids. She has five kids. They're all grown with their own families, but she thinks these people walk on water.

**Gail Phillips:** Well, you guys, before this entity was developed and paid for by the state, there were private meat processors in this state. They were little old guys and they were all over. Most of them are gone now because we have this thing. So of course.

**Paul Huppert:** You know, there was a big change took place. We had the wholesome meat act and that is the only USDA inspected plant. And that is critical. And you – that plant – where you're looking there, they cannot deliver to the corrections. They can't sell to corrections. If Mt. McKinley wasn't even there, they still wouldn't have that market.

And the only way you can take these animals through to any market has got to be in a USDA plant. And I don't disagree with that. I think that before we had – I'll tell you something, before we had the USDA inspected plant, we had some horrible hamburger that went out into public. I saw a fellow that was selling hamburger to restaurants that was using day old calves and had more blow flies around his damn grinder then you could ever imagine. And it was in a lot of these fine restaurants around town. (Indiscernible).

**Mac Carter:** Well, we have to change statement number 3 there because it's not the only USDA approved plant. There's one in Delta and there's also one in Fairbanks.

**Rachael Petro:** In Southcentral.

**Paul Huppert:** Well, I'm talking about Southcentral.

**Mac Carter:** Okay. The only one in Southcentral. I mean, but north of here, those are the only two. So there is none south (indiscernible).

**Rachael Petro:** And just clarification on the – for meat plant. I hate to split hairs here. But there's the kill floor and then there's the processing side. And I – you know, both – I'm not sure about the certification. But what I heard Frank say was that the – it's the kill floor that's certified and somehow that's what makes the difference. Anyway, so that place along the Palmer-Wasilla Highway, they don't slaughter there. Or at least they don't slaughter USDA certified.

**Paul Huppert:** There is no other slaughter facility.

**Rhonda Boyles:** Okay. David.

**David Wight:** I think for me we're wrestling with the wrong end of this dog. For the dairy industry, agriculture, it amounts to a market for between 250 and 300 cows. Last year it was 289 cows at nominally 600 bucks, so it's about $200,000.00. I think that's what we need to focus on. And we need to have that one way or another because already we know that the dairy industry is either at the margins or over the margin. You can't take another $200,000.00 out of it. So somehow, we've got to provide for that.

Now, where it goes, it doesn't seem to me to be an agricultural thing. It's certainly got a lot that's going on. It seems to be geared up for corrections. But again, I think the state needs to look at it and say what do we want to do. But we, from the dairy industry side, say we need this $200,000.00 worth of support, whatever it is. And I don't know what the 200,000 input in terms of going over to the dairies for purchase results – how much of that is the – of the loss is at. I don't think it's anywhere near all of that.

**Gail Phillips:** It's one – it says 167,000 of the 200,000.

**David Wight:** Is?

**Gail Phillips:** 167,000 went to producers in 2005.

**David Wight:** Okay.

**Gail Phillips:** So of the $200,000.00 loss.

**David Wight:** But that's not where the whole thing lost money. And you can't say.....

**Gail Phillips:** Right, right.

**David Wight:** .....most of it was just related to picking up cull cows.

**Gail Phillips:** No.

**Paul Huppert:** It's not – you know, that's correct. You know, the main thing is this just isn't the dairy industry. And you can't put that loss totally towards that. That meat plant does a lot of custom killing and also takes in other animals, including reindeer and bison. It is the one plant that all of the 4-H animals and FFA animals go through. And without that, they couldn't even have that damned auction at the fair there. So I think it's a big impact. And if there's going to be any growth in the red meat industry, we need the plant.

**Joe Van Treeck:** So then that really becomes one of the tenets. We've got a plant that's underutilized (indiscernible) a certain amount of fixed costs they can't shrink. So not only do we want to talk about why we need to have it for the dairymen, but we need to talk about markets again. That we need to help build a meat market for – and the red meat industry so that all (indiscernible). To increase the volume so that the dairymen have the benefit of the meat plant, but the red meat industries use it.

**Mark Neuman:** And that's – again, it goes right back to the crux of Mt. McKinley Meat & Sausage is, you know, it's always been a chain dangling out there that we're going to close this only USDA kill plant south of Anchorage. Now you're not going to grow any meat industry. Who's going to invest in any livestock in this state if they do that? If it's underutilized is the reason why they're losing money, I mean, to me it's just – it's fighting against itself in that inner circle there. It's, you know, I mean, if -- we have to have a commitment from the state to keep that open so that we can grow that industry, so that they have more meat coming through there, so that it is more cost effective. And it will pay for itself and it will start breaking even. But you're never going to do that always threatening to close it.

**Rhonda Boyles:** So if we make the statement that we're going to keep it open at least for the near future, the state's commitment to this dairy industry, to the industry in growing the meat industry is to cover the deficits of $200,000.00. If it's DOC that covers them or ARLF, it's to be covered and the state's general fund needs to cover that deficit as opposed to ARLF, right?

**Mac Carter:** Yes.

**Rhonda Boyles:** And then we, in this group, do you have any profound statements to make as other than the Department of Corrections running it, we know they're not going to do much better than what Division of Agriculture has been able to do because we have to go back in and evaluate the management problem and look at being more efficient.

**Paul Huppert:** Well, hopefully we can convince our legislator when he looks at that Department of Corrections' budget, that 2.5 million that they put in that farm out there, which I still get kind of aggravate – because that was one of the very key better dairy farms in the Valley that was put in out there. And that was handed to corrections.

**Rhonda Boyles:** Well, maybe long-term goal.....

**Paul Huppert:** I think that they should have an obligation to attempt to help agriculture. And that's one area they can do it in.

**Rhonda Boyles:** So longer term goal would be to sell this facility and land and build a smaller and more efficient facility closer to Pt. McKenzie? No?

**Paul Huppert:** I don't know if that would be the answer or not.

**Mark Neuman:** Because you can't build a whole other processing plant for a $200,000.00 a year investment. You're not going to – I mean, it's going to cost millions to build a new plant.

**Paul Huppert:** You'd be better off to keep it.

**Rhonda Boyles:** And keep it there in the center of Palmer. Candy?

**Candy Easley:** I have several comments to make about this that all come from the Division of Ag staff. We sort of ran by all these things that we've been hearing here so I got elected to tell you guys. One of the things, including the director by the way, that we all agreed on is the plant shouldn't be kept there. If it's your stand that we need a meat plant, that building is not built appropriately for what we want it to do. It's obsolete. It's sitting in the middle of the City of Palmer. So if you want a plant, the staff says this one's not going to work for you for what you need it for.

By the way, Larry told me yesterday the furnace blew up again and we just replaced that three months ago at a cost of $10,000.00. So this – the loss that we're showing now, that's just going to get greater.

**Rhonda Boyles:** It doesn't have a warranty?

**Rachael Petro:** No, because you're running cold water through it which means it destroys it (indiscernible).

**Candy Easley:** So that was one thing we all agreed on. The other – and that was resounded by everyone is we should not be in the boxed meat sales. So for those of you – and it's been confusing with all the things that are coming up. Meat – Mt. McKinley Meat does retail sales right out the door just like the other retail sellers. And I just found out, gosh, we sell boxed dog bones. And we sell it for less than what we – the box costs us.

So there's lots of things going on there that are better met by the private industry. So we're selling retail out of the door in competition with other meat retailers. And then, of course, we're selling huge to Department of Corrections in competition with the other wholesalers. There's three wholesalers.

So all the staff agreed having a USDA inspection slaughter facility is important. And it's important to have a place for these dairy people to take their cull dairy cows. But we should not be doing it with the facility that's competing with the private sector on both wholesale and retail sales. Now that we all agreed on, then we started differing how we should accomplish that.

We all felt that corrections was – since they were the ones purchasing the bulk of the meat, that's where it should be. There was discussion of recommending that it be built with this new facility that's going to be built out in the Valley. However, we thought that could be, you know, a lot of years down the road and we needed help now.

And so we thought the idea of building a USDA spec kill floor on the correctional Pt. MacKenzie farm was really the proper place to do it. And that corrections should easily be able to defend including that in their budget. Ray and I estimate the cost to build just that at a million to $2,000,000.00.

Now considering what the ARLF is losing is every year on that, that doesn't seem all that much money. Just a kill floor. Just a kill floor. And there are some side details to that. There would have to be cooperative agreements with the Department of Corrections on buying just hamburger from the cull cows and things like that. But we don't need to compete with the wholesalers and the retailers.

The other thing we said is if we did something like that, that we also needed to immediately make some changes to what we have now. Because even if we could line up something like this, that's not going to happen overnight either. And that what we suggested was modifying what we're doing now so it stops the competition with the private sector. But also start to run what we do have more efficiently. And we could modify that operation to – for instance, only provide the kill floor services. And there's differing ways we can do it. But again, a cooperative agreement with corrections.

So staff, of course, is looking at trying to find ways to more immediately address things. But we all felt that these were possibilities. But that to just continue it was – the way it is – to just ask for more money to continue it the way it is was not a good option.

**Carol Lewis:** Candy, if you – did you folks look at two things. If you just operate a kill floor, where would the processing go? And then another, what about portable (indiscernible).

**Candy Easley:** We talked about the portable, but we really felt that it was a better investment to go ahead and – I mean, you're going to – you could easily spend even a half a million dollars putting together this portable.

**Carol Lewis:** Yeah, I was just……

**Candy Easley:** But we did talk about that. And we just felt a million up to two – I mean, the state has the land. So there wouldn't be the cost of the land. It's just building the building. And the ARLF, by the way, financed a USDA slaughter facility on Umnak Island and they, of course, slaughter in the fall and they bring an inspector out there. McCollum (ph) up in Delta, now it's been, I don't know, 10 years ago, but that facility is a USDA spec built, million dollars. Probably cost more than that now. But it's…..

**Carol Lewis:** A very, very efficient and extremely (indiscernible).

**Candy Easley:** It's a very nice, small plant, very nice, small plant. So I think there's reasonable alternatives if the state wants to keep maintaining a USDA spec kill floor. But we need to make changes (indiscernible) throw more money at the one we have, if we're making a long-term commitment, it's not a good idea.

Certainly, the ARLF would like to sell that property and replenish some of the funds from the sale of that. We estimate minimum a year to build something like that. It's not the building of it, it's the USDA specs. A minimum of a year. So what we said is well, government being what it is, we better figure two years. So that's why were saying we should not just continue it the way it is now. If we're going to work out a plan to build a new one, we should come up with a modification of what we're doing now that would then defend, hopefully, getting funding to cover any losses until the new facility got built.

**Carol Lewis:** But again, where would you process (indiscernible).

**Candy Easley:** Well, I mean, those details have to be worked out. My personal opinion is if someone wants to bring in their cows to be slaughtered there, there's a fee and we can hang it and they come and get it and take it to the meat processor who will package it all pretty in sausage.

**Paul Huppert:** Are you sure it wouldn't take the FFA and 4-H (indiscernible) at the farm.

**Rhonda Boyles:** Other than burning it, Gail.

**Gail Phillips:** One other thing that nobody is looking at, I'm sure that the education system here is provided to the prisoners for free. They should dang well be paying for that education.

**Rhonda Boyles:** That's what I wrote it in here.

**Gail Phillips:** And you – oh, did you? I'm sorry. And either get a donation out of the Department of Education or do it private sector. I mean, they have to pay for it if they're going to get educated.

**Rhonda Boyles:** Is that a fair statement by everybody that either you educate – do education or you do productivity and the two usually don't complement each other very well.

**Paul Huppert:** That was a big part of their article, the education out at the farm there in competition with all the rest of us producers.

**Rhonda Boyles:** Well, at least we recognize that. Mac, what would you do with it? Make a recommendation here.

**Mac Carter:** My recommendation would be to give it back to the Department of Corrections.

**Ginger:** When did it go to.....

**Rachael Petro:** 2003.

**Rhonda Boyles:** Under Torgerson. Remember?

**Rachael Petro:** And it wasn't one-sided. It wasn't just Torgerson pulling. It was corrections.

**Wes Eckert:** No, they wanted to get rid of it.

**Rachael Petro:** Part of the problem from my understanding from the commission and deputy commission of corrections is that the – they could not even put a number on what they were losing. So there was money disappearing that they didn't even know about, like upwards of 500, $600,000.00 is what the number that I heard. So I don't know – they're not – just like Division of Ag, we are not pleased to run businesses.

**Mac Carter:** No.

**Rachael Petro:** Nor is corrections even – you know, even, okay, Pt. McKenzie, whatever. So I mean, that's an uphill battle especially when they're trying to build this new prison. But I mean, it wasn't just a pull from ag. It was also a push out of corrections. And they have stated numerous times that the educational value, regardless of what Frank Huffman and we all think about the value of training those inmates, they're okay with getting rid of that program, corrections is.

**Rhonda Boyles:** Anybody here just say close it? Sell it, building and land.

**Wes Eckert:** Well, I think we need to wait until Chad does his foreclosure at least.

**Rhonda Boyles:** Thank you, Wes.

**Ginger:** And one other thing, I thought it was maybe the second day when we were talking about McKinley Meats, there was a talk about a co-op, have all the dairy farmers to do a co-op. Was that with McKinley Meat or was that not?

**Mac Carter:** Not with McKinley, no.

**Candy Easley:** We have tried that too.

**Ginger:** Oh, okay.

**Candy Easley:** Yeah, we have tried to give it away. And at one time – I don't remember, Chad, a long time ago there was some federal money available for co-ops.

**Chad Padgett:** There still is.

**Candy Easley:** But – and we said to some of the meat producers, we will literally give this to you if you will come to us with a reasonable plan to run it and they never gave us one.

**Chad Padgett:** Candy just touched on something pretty important. There's still money available for co-ops and cooperative marketing associations, which the State of Alaska, as a non-profit, can be included in. So what she just touched on there is there is an availability to downsize this stuff using federal money on the processed and for value-added.

**Rhonda Boyles:** Boy, that's a nice addition under the collaboration statement. Rachael will go back and find that. Okay, David, what are you going to do with Mt. McKinley?

**David Wight:** Three parts. First, there's a period of time we've got to keep it. I'm kind of ambivalent about where it's kept, but right now it's one of the financial underpinnings of an industry that we're talking about so we've got to have it for a while. Second part would be like we were going to do on the creamery, there's an analysis as to whether or not there is something else that can be done either with this one or a smaller one or something that will do away with the loss.

And coming out of that process and then our process, I'm going to assume for a minute that we have a dairy business that's ongoing so we need a place for our cows to go. And then you either have to have this facility or if you've done away with it, then there's going to have to be some subsidy that comes back to the dairy industry around the value of the cows to keep them in business. And I don't know those answers, but it seems to me that's kind of how it falls out. You know, they sold $176,000.00, is that what it was, Gail?

**Gail Phillips:** 167.

**David Wight:** $167,000.00 worth of cattle to them. And if it's not there, what would they get for them and what's the difference in how you make it up because that's where we're at.

**Rhonda Boyles:** You need to elaborate on that just a bit, Rachael. Ken, you're so quiet.

**Ken Sherwood:** Well, I mean, I think it's a tough situation, but I'd let DOC run it another year and then just see what happens with all these things. All the money should be (indiscernible).

**Wes Eckert:** You're not going to get DOC to take it. You may wish that, but I don't think that we're going to get them to take it.

**Rhonda Boyles:** But we may be able to get them to pay for the privilege of not having to take it.

**Wes Eckert:** Somebody's got to pay for the loss.

**Candy Easley:** How much?

**Wes Eckert:** Somebody's got to pay for the loss.

**Rhonda Boyles:** That's right.

**Wes Eckert:** Quit taking it out of the ARLF fund.

**Rhonda Boyles:** Contribute to the management contract, yeah.

**Unidentified Speaker:** The easy way to do that, just up their price to cover your losses.

**Rhonda Boyles:** Yeah. Their box meat gets more expensive.

**Mark Neuman:** (Indiscernible) and you got a million and half dollars worth of product moving through there making up $150,000.00 this last year is only 10 percent. I mean, it's not that big of a deal.

**Rhonda Boyles:** You think maybe it can come from reviewing the management practices, Mark?

**Mark Neuman:** Yes, I do.

**Rhonda Boyles:** I'm saying that this portion of the report, folks, we've been holding our hand out on everything else. We better do something tangible here before we ask for any more. Joe, brilliance, let's hear it. You make money with the creamery on a good day.

**Joe Van Treeck:** Well, I want to go back and test the $187,000.00 number for this year. That must be more than just the dairy. That must be the big animals, because that's either 80 cows at 2,000 or a bunch at $2,000.00 apiece. I mean, that's a lot of cows.

**Gail Phillips:** And they said 280.

**Unidentified Speaker:** 289 cows last year. That's what it was.

**Gail Phillips:** 289 cows.

**Unidentified Speaker:** So it's about $600.00 a cow.

**Rachael Petro:** And I think it broke it down to cull cows as well.

**Candy Easley:** Yeah, 272 cull cows.

**Rhonda Boyles:** We went through all that. Ray has that somewhere. We can pluck that in there. We'll get a statement from Ray on that. Ernie?

**Ernie Hall:** I don't have anything to say about that. I've heard that line (indiscernible) and I've been waiting all day to use it. I'm in consensus with the rest of them. You know, it needs to be carried along for a while, but I think if you give it back to the Department of Corrections, what's the guaranty they're going to run it? Give it back to them, they may shut it down and walk away from it.

**Rhonda Boyles:** So we can pull this together, Rachael. I mean, it's nothing new here that we – I was hoping somebody had a brilliant idea.

**Gail Phillips:** I did. You rejected it.

**Mac Carter:** Yeah, burn it down.

**Rachael Petro:** Oh, no, that's not new.

**Rhonda Boyles:** I think it might have been a little more exciting.

**Mark Neuman:** If the state can even invest in a new plant at Pt. MacKenzie, to carry that plant for a year that's going to cost $2,000,000.00 to build and the value of the property is worth $2,000,000.00. I mean, it's just a matter of carrying that for a year, selling the property to pay for it. Something that's economically viable for size. It's not that big of a deal, it's just a matter of carrying them for a year. Is that hard to put into words or.....

**Rachael Petro:** I have a question. If we, the state, are going to buy – you know, purchase a new meat plant, why are we presuming that it should be the state to run it rather than private industry? I mean, heck, if we're going to buy a new meat plant. Just a question.

**Mark Neuman:** Because we heard from the people that are running it right now, Frank, saying that private industry can't operate it because of the – there's certain – that farm act or whatever.

**Rachael Petro:** The USDA certification is the.....

**Paul Huppert:** That's correct. And you know, the big thing with this Department of Corrections is again marketing to state institutions. That's an uphill battle we have never been able to conquer.

**Rachael Petro:** It's on all of our recommendations.

**Paul Huppert:** One thing with that meat plant, they are marketing to a state institution. And I'll tell you what, these cull cows, if you think you're going to go into McDonald's with that meat, you're going to stand on the street corner cooking it because it's not going to go. They got that market.

**Rhonda Boyles:** No, I can tell you that. Okay. So let's go – we'll fine tune this and we'll get the four sections back out to you. Feel free to add your wisdom and comments electronically. But I don't think we need to do this again. But I – before we leave, part company here, on a serious note, I appreciate every one of you, I really do. I really do. I've been cranky today because I'm trying to get you to make decisions and we just want to pontificate, but I really appreciate the job you've done. And I appreciate all the participation.

I'd like to say that we can make statements in this report about the ARLF fund, we talked about that. We need to make a statement that says the ARLF fund and – that we should not be looking to the fund to cover subsidies and deficits. The fund was established for low interest loans. That's what it needs to be used for.

**Paul Huppert:** Deficits or.....

**Candy Easley:** Nor to augment any state agency budget.

**Paul Huppert:** Or operate the Division of Ag, that's correct.

**Ken Sherwood:** That's probably, Rhonda, super important to say that you want the Division of Ag funded out of the general fund. We got to say that and you got to say the plant materials center is funded out of the Division of Ag and ARLF is left to make loans.

**Rhonda Boyles:** Ken said it. Go back over it again because she was chatting.

**Ken Sherwood:** The Division of Ag.....

**Rachael Petro:** I was talking. The Division of Ag.....

**Ken Sherwood:** .....should be funded from the general fund and they should be funded enough to fully fund the plant materials center and ARLF should be left alone to make the revolving loans. Nothing should come out of ARLF other than to make loans. Does that sound all right, Candy? Does it sound.....

**Rachael Petro:** Right. So – right, just loans out of – we already have this.

**Ken Sherwood:** It is really critical in the whole grand scheme of things.

**Rhonda Boyles:** That's right.

**Rachael Petro:** It is very critical. I think we should put it on each one.

**Paul Huppert:** I'll tell you – and I think Ken will back me up here. But the reason the revolving loan fund was started is because farmers – I don't care, even in our operation, though it's profitable, bankers don't want to talk to you. They'd rather talk on guaranteed loan programs that are building houses. And I don't want to go to the industry loan fund or the state other loan funds because we got people in the Division of Agriculture that understand Alaska agriculture. And if they – well, actually, the fund has done a great job. It's made loan and it's in pretty good shape.

**Rhonda Boyles:** Okay, so we all – can we all agree on that statement?

**Unidentified Speakers:** Yes.

**Rhonda Boyles:** That's an easy one. Okay.

**Unidentified Speaker:** That's an easy one.

**Rhonda Boyles:** Also I'd like to be able to say that the Creamery Corporation board of directors needs to reflect the goals of the Creamery Corporation's future, immediate future direction, something of that type, so that we can empower you a little bit, Joe, to take a look at what we have to do in that creamery in order to protect the state's asset and the consumers and the producers.

**Joe Van Treeck:** One more time because I'm reading this and I don't know that I'm taking away from it what it is you're trying to say.

**Rhonda Boyles:** We have a BAC board that runs the Creamery Corporation. Two separate issues. We don't do either very well in my opinion Excuse me, Mac and David. But we are – we wear too many hats. We need more people like David Wight on the Creamery Corporation board so that you can move that creamery forward to either privatizing, looking at smaller, relocated and logistical studies, looking at the Tier 2 pricing. You have to have people who can stay awake in the meetings. Joe, how much simpler can I – please don't write that. But I'm frustrated by that whole thing. And we spent four or five days talking about problems and the problems should and probably could have been addressed at your corporate board level and at the BAC level. So I need a statement that empowers that Creamery Corporation board.

**Joe Van Treeck:** So the statement really is that statement back to the BAC that they're appointees to the creamery board need to.....

**Rhonda Boyles:** Need to reflect.....

**Joe Van Treeck:** .....come from different school of expertise.

**Rhonda Boyles:** Right.

**Joe Van Treeck:** And should not mimic the BAC board membership.

**Rhonda Boyles:** Right. Because we have a different set of objectives now with the creamery.

**Mark Neuman:** Which goes right back to the short statement of the Creamery Corp, the fourth line, review composition of board of directors.

**Rhonda Boyles:** Right. So are we all comfortable? Can you support that?

**Unidentified Speakers:** Uh-huh (affirmative).

**Rhonda Boyles:** Yes?

**Joe Van Treeck:** Yes.

**Rhonda Boyles:** Ken.

**Ken Sherwood:** Well I have a question on the process. You emailed all of us this recommendations report. What if we – what if there's stuff – there's things in there, or language in there, that we don't think is appropriate or that – I mean, how do you get the committee to say I want this thrown out or we want this added in?

**Rachel Petro:** It's pretty easy. I do it all day every day. You send me your comments, I rework it. I can either leave it in Word tracking or I can just change it and I send out the next version. The hard part is you guys read it, see if it's, you know – I mean, because I'm going to get everybody's comments and I'll just work them in as the editor. And it's a process, but, you know, that's how we do stuff.

**Rhonda Boyles:** Unless you want to come back together for half a day or something and go over the whole report. And I might slash my wrists, Ken, at that point.

**Ken Sherwood:** Well, I just, you know.....

**David Wight:** Word tracking is the only way to do it. Otherwise you have to read the whole thing every time.

**Rhonda Boyles:** Yeah, in Word tracking. Okay. And I'm also – think we need to make – the Division of Agriculture and the commission needs to address the priorities of the entire industry immediately. Which means we need to move on, let this – internalize this report, support this report and move on to look at the whole industry.

**Joe Van Treeck:** Agriculture industry in general.

**Rhonda Boyles:** Uh-huh (affirmative). Yes.

**Mac Carter:** I think it needs to be looked at as both a historical as well as an economical issue.

**Rhonda Boyles:** Okay. And Chad's going to get me some information on

CRP to add, plus the comparison on – what else did we talk about, Chad? I know you were making notes in your little Blackberry.

**Chad Padgett:** I've got the CRP information. And you just want numbers on that, correct?

**Rhonda Boyles:** Uh-huh (affirmative).

**Chad Padgett:** I don't (indiscernible).

**Rhonda Boyles:** I need a paragraph that says we're not going to go – I need a paragraph like we talked this morning that explains the situation, a short statement.

**Chad Padgett:** Yeah, that shows the acreages and.....

**Rhonda Boyles:** Yes.

**Chad Padgett:** .....and the dollars. Yeah.

**Rhonda Boyles:** Yeah. And we're not going to go down the road to land values right now, not in this report. We talked about that. And then there was something else this afternoon that came up that you said you would attach. It was Representative Marks (ph).....

**Chad Padgett:** Oh, that was the statistics on the subsidies.

**Rhonda Boyles:** Right. Thank you very much.

**David Wight:** And they were federal subsidies we talked about.

**Rhonda Boyles:** Right. So those things. And Carol's going to write me this wonderful introductory paragraph on agriculture in the state. And I know you won't give me a dollar figure, but the multipliers for the economic impact. And if you have any multipliers for social impact, we need to have that too. We need to make a statement as strong as possible, right?

**Ginger:** What section was the marketing stuff under?

**Rhonda Boyles:** We put the marketing stuff under the collaboration because that's an opportunity. If we come together, have some collaboration, that will be the first step towards forming some kind of a co-op to be able to apply for marketing funds.

**Ginger:** And did you bring in Department of Commerce into that? I mean, just to make a big play that they need to address (indiscernible).

**Rhonda Boyles:** Somewhere we made that statement.

**Rachael Petro:** We did, but I'll add it right there with the – in the collaboration statement as a placeholder.

**Rhonda Boyles:** Yeah. Thank you. Because can have happy cows the same as California. Yeah, all over the sidewalks.

**Carol Lewis:** There was marketing support piece (indiscernible).

**Rhonda Boyles:** Huh?

**Carol Lewis:** There was a marketing support piece (indiscernible).

**Rhonda Boyles:** Yes. I need.....

**Mark Neuman:** Should we include some type of statement in that? I just was talking to Tony Nakazawa about it and seeing the discussion, what is it going to take for Alaska to get back to the position – if all ag went away, if all this went away and shut down and it kind of brought back to the ag, you know 49 cents for a dozen eggs and now they're over a $1.00 a dozen. It – but again, everything that the state has invested in ag, what is it going to get – what is it going to cost to get back to this point again if all this does go away? If the creamery closes down, if Mt. McKinley Meat closes down and we lose ag in this state as we know it and we import everything back into this state, what is it going to cost to try and get back to that compared to what we got? I think the value that we have is extraordinary. And I think we need to – we have an obligation to try and maintain the investment that the State of Alaska has in this because to try and get back to where we're at is going to be a tremendous amount of money to where we're at today.

**Paul Huppert:** I think it would be a tremendous cost. And you know, the same people pay it.

**Mark Neuman:** Much more than $200,000.00 a year for Mt. McKinley Meat.....

**Paul Huppert:** That's by far.....

**Mark Neuman:** .....or 25,000 or a million dollars a year for Mat Maid.

**Rhonda Boyles:** Mark, I appreciate your seeing it like that. And you're being objective about looking at the facts as well as Ginger and you carrying the message to Lyda. Because it's you two that are going to have to carry the water a little bit. We'll help. That's what this report's for. And you.....

**Mark Neuman:** I've got no problem.

**Rhonda Boyles:** You'll hear more from us.

**Mac Carter:** And I think all of us would rather see if all these entities remain in place and be supported. But it's not us that's makes that decision, it's the legislature and the governor of the state. So if they don't step up to the plate and do it, we can't it. It's just – you know, it's going to go away.

**Mark Neuman:** We will. We will work to try and again, for me to sell this to the legislature, it's here's the value that we've got now. You know, are we going to lose that for this small amount of money? Or can we again, look at what we're going to do with Mat Maid. Okay, Mat Maid creamery board is – their new objective is to look at the restructuring of Mat Maid. Do we need to downsize, what it's going to cost to downsize, can you sell what we initially have an investment that they own right now, you know, to make that back up and the same thing with the meat plant. And the meat plant, build – you know, can the state carry that meat plant to build a new, more efficient, modern plant that will deal with the economies of scale that we've got until, you know, can we get that built, we can sell the plant that we've got now and continue business as usual and continuing growing ag in the state.

**Rhonda Boyles:** You know, I think it's very, very critical that we all are aware of how the BAC, the appointments are made. They're governor's appointments and we can easily take a look at that and see if that structure is meeting the needs of today's agricultural industry. You also need to be aware that the Division of Ag director is a political appointment. And we may want to make a statement publicly or privately on some level on the skills of that individual. I don't know. Let's wrap up. Comments? Ernie.

**Ernie Hall:** You did a great job, seriously. You did a great job.

**Rhonda Boyles:** You boys are good. Thank you. Joe?

**Joe Van Treeck:** Well, I just thank the people for, you know, volunteering to be here to look at this because it is a – you know, it's a vulnerable – it's vulnerable and if it has value to the state, this is the time.

**Rhonda Boyles:** Wes.

**Wes Eckert:** Interesting. I enjoyed it.

**Rhonda Boyles:** Was it enjoyable for you?

**Wes Eckert:** Yeah, it was fun.

**Rhonda Boyles:** I don't know that we'll all be back here next year. We'll call you up. Ken.

**Ken Sherwood:** It was interesting. It's kind of an eye-opener.

**Rhonda Boyles:** Paul. Thank you.

**Paul Huppert:** Well, I appreciate all these people that take a look at agriculture being in agriculture myself and knowing we need this support. That's what counts. So I appreciate it.

**Rhonda Boyles:** David.

**David Wight:** Echo what they said. It's very interesting, educational. It really needs some action. It's just desperate for some action otherwise it's going to go its own course and it doesn't sound like where we want it to be.

**Don Lintelman:** I too want to thank you for everything and appreciate being on the board.

**Rhonda Boyles:** Don, I personally – I think I can say this from all of us, you've made it work. You're the shining example and everybody should be just trailing through your operation to see what you do to make it work rather than whining.

**Don Lintelman:** Well, I don't know if I was a good example or a bad one to these farmers, so.....

**Rhonda Boyles:** Mac.

**Mac Carter:** Well, I don't know quite what to say. I can hear what everybody else has said, but it's the only thing I get more joy out of every March and that is planting seeds in soil and getting my hands in it and seeing it grow into something that you can sell. It's a renewable resource. And so that alone is the reason why I'm here because I love agriculture, and I think it's got value to it in this state because it needs to remain that value. Thank you for inviting me to be a part of it. I seriously mean that.

**Rhonda Boyles:** Gail.

**Gail Phillips:** Well, I think every industry in Alaska is valuable. And we must do everything we can to preserve it with maybe the exception of Matanuska Thunder, but other than that.....

**Rhonda Boyles:** What's that?

**Gail Phillips:** Marijuana crop. But I think that we don't have enough industry or businesses in Alaska that we can afford to let any of them be diminished by – in this case, it's just good management I think that can bring it back and save it. And I really got – enjoyed getting to know the different folks in here that I haven't had a chance to know before.

**Rhonda Boyles:** We worked hard on the group. I appreciate every one of you. Ginger, thank you for participating. What's your thoughts?

**Ginger:** Sure. Well, Lyda's fine. She's out of the hospital and home so she's doing very well. And I think – I've been on all kinds of different kinds of committees too through my time with the legislature and with this state. And it's really refreshing to have such honesty and just open comments. And I'm hoping that report really does hit home and that somebody really does act on it. Because I know government can sometimes be a real kind of stumbling block. But I really appreciate everyone's honesty and there's some emotion that was shared too, so that's good.

**Rhonda Boyles:** And Chad, we pick on you, but we love you. Thank you. Thank you. Do you think this is going to work a little bit?

**Chad Padgett:** Yeah (indiscernible) for the first time. I mean, obviously, some of us have a little bit of differences in the room. But I think it's the first time I've seen anything at least in the five years I've been doing my job, it's the first time I've ever actually seen everybody try to get together and hash it out honestly. So I do appreciate that. And I think it's – hopefully, it's helped everybody understand a little bit more where we're all coming from. It certainly has for me, so.....

**Rhonda Boyles:** Thank you. Carol, that you for your participation.

**Carol Lewis:** Excellent job. It's one of the best efforts I've seen in the long history I've had with ag development in the state. I think that each segment of the ag industry would benefit very much by a similar group such as this, or maybe this same group. Because I think the report (indiscernible).

**Rhonda Boyles:** I don't know, I might have to pay them – we might have to pay them for the next one around. Candy, you can take the money out ARLF. We'll pay them the next time.

**Candy Easley:** Yes, I would. I would. Yeah, money better spent.

**Rhonda Boyles:** Thank you so much and we'll get the report out to you electronically.

(Off record)